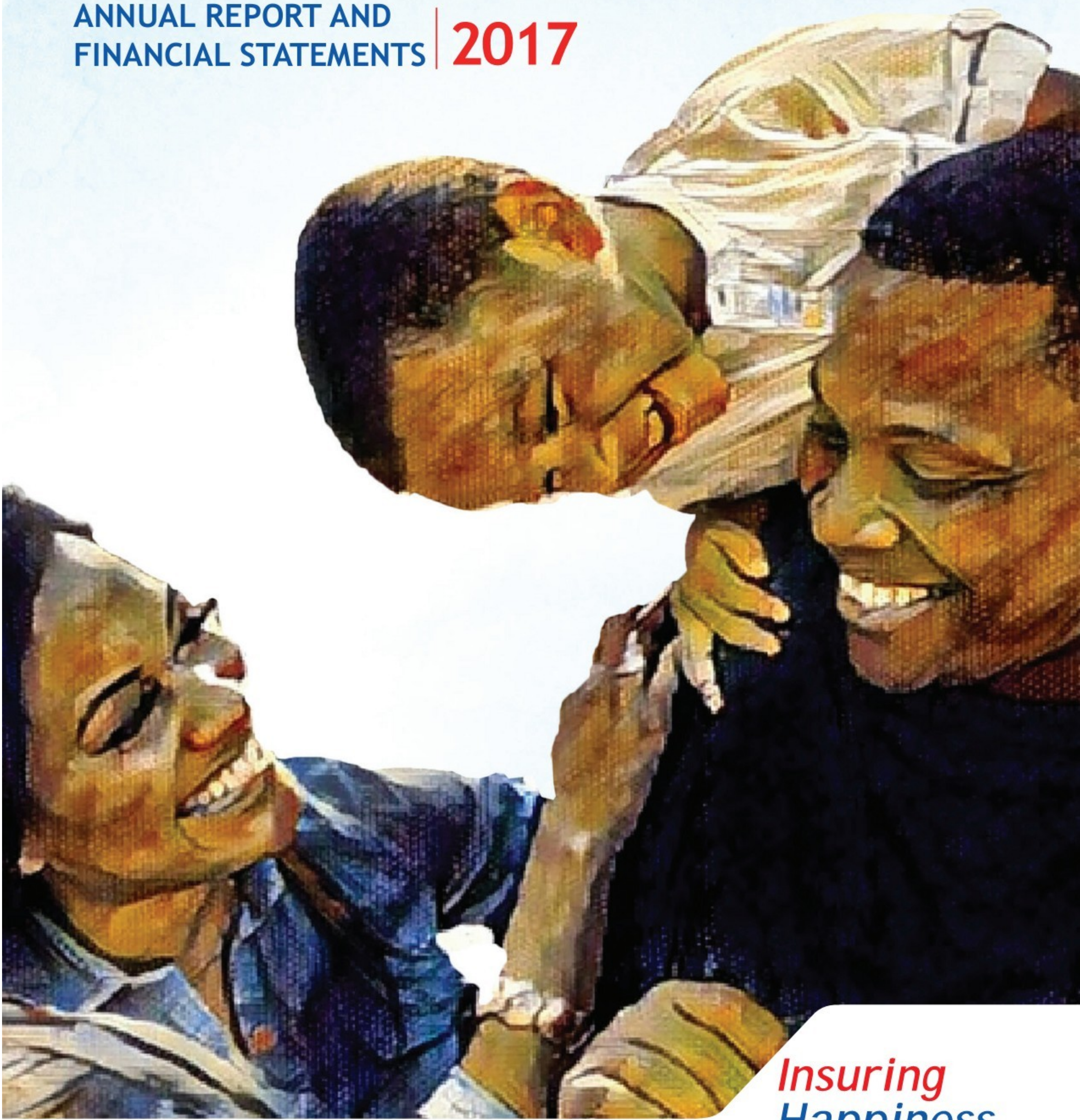
APA INSURANCE

ANNUAL REPORT AND FINANCIAL STATEMENTS 2017



Insuring Happiness

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What is happiness?

Happiness comes easily when you know that you and your loved ones are covered from life's uncertainties.

APA, Insuring Happiness

Vision

We put smiles on the faces of our stakeholders.

Mission

We are the region's most respected group creating and protecting wealth.

COMPANY INFORMATION

The board of directors and senior management were as follows:

BOARD OF DIRECTORS
J N Gitoho - Chairman
D M Ndonye
A K M Shah
S M Shah
R Schnarwiler**
R M Ashley*
P Shah*

*British
**Swiss

SECRETARY
P H Shah
Certified Public Secretary (Kenya)

SENIOR MANAGEMENT
V Bharatan - Chief Executive Officer
J Kigochi - Chief Finance Officer
P Khimasia - Chief Business Development Officer
S J Njoroge - Chief Operations Officer
C Kamau - Director of Business Development
M Naul - Director Operations
A Mabuka - Director of Business Development
S Gichuhi - Head of Health Business Development
S Goswami - Head of Health Claims
L Kuria - Head of Care Team
C Ngala - Group Head of Internal Audit
J Nyakomitta - Group Chief Information Officer
J Nguli - Group Head of Human Resources
B Otieno - Group Head of Risk
C Wambua - Head of Micro Insurance & Agribusiness
J Tonui - Head of Corporate Communications
J Bogonko - Head of Customer Service

REGISTERED OFFICE
Apollo Centre, 07 Ring Road Parklands, Westlands
P O Box 30065-00100
Nairobi

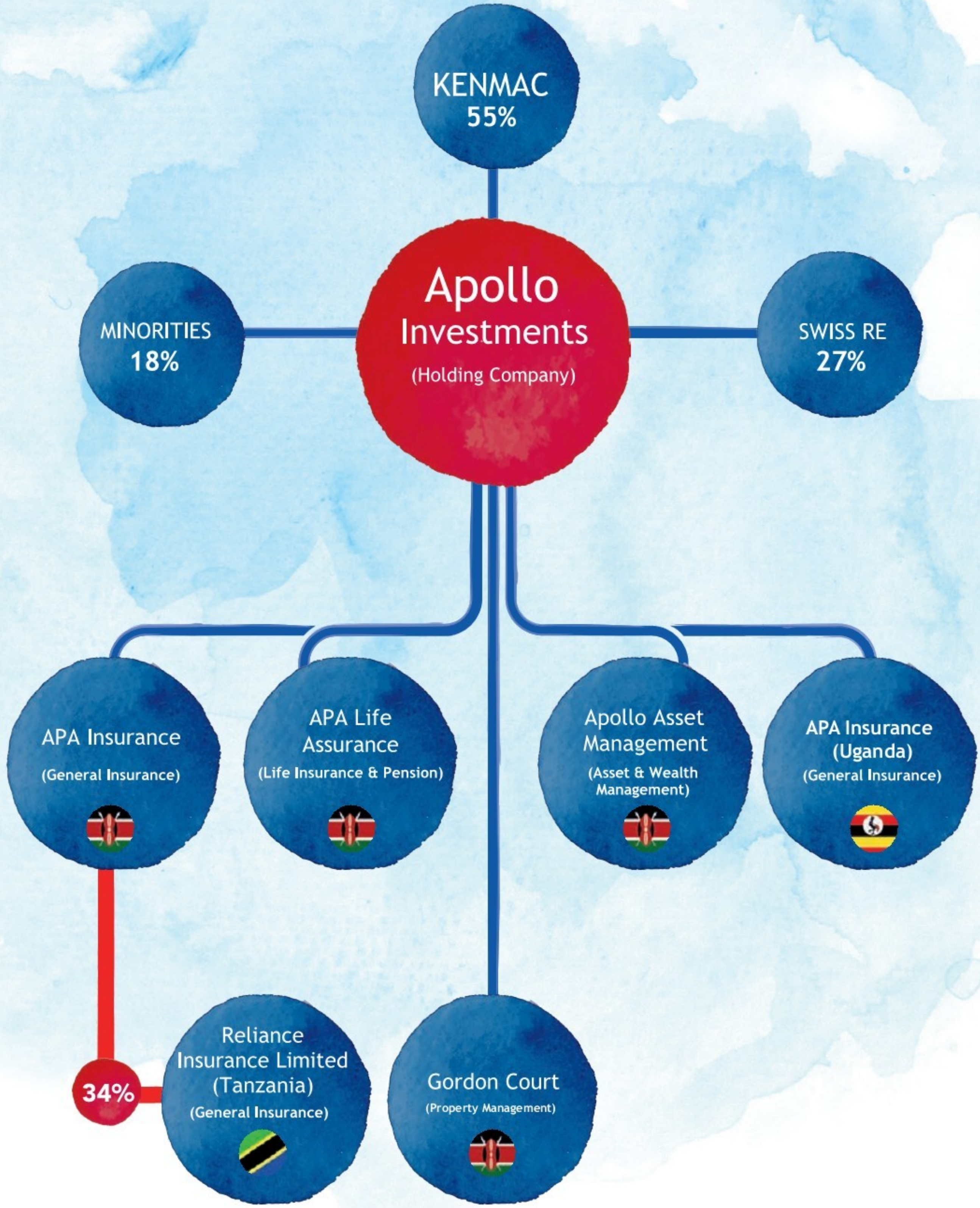
PRINCIPAL BANKERS
Commercial Bank of Africa Limited
P O Box 30437-00100
Nairobi
Standard Chartered Bank Kenya Limited
P O Box 30001-00100
Nairobi

INDEPENDENT AUDITOR
PricewaterhouseCoopers
Certified Public Accountants (Kenya)
PwC Tower, Waiyaki Way/ Chiromo Road,
Westlands
P.O. Box 43963 – 00100
Nairobi

APPOINTED ACTUARY
Zamara Actuaries, Administrators & Consultants Limited
(Formerly Alexander Forbes Financial Services Limited)
Landmark Plaza, Argwings Kodhek Road
P O Box 52439 – 00200 Nairobi

HEAD OFFICE
Apollo Centre, 07 Ring Road Parklands, Westlands
P O Box 30065-00100 Nairobi
Tel: +254 (0) 20 2862000

GROUP STRUCTURE



BOARD OF DIRECTORS

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1. **Ashok Shah** - Director
2. **Daniel Ndonye** - Director
3. **James Gitoho** - Chairman
4. **Richard Ashley** - Director
5. **Pratul Shah** - Company Secretary
6. **SM Shah** - Director
7. **Reto Schnarwiler**- Director
8. **Piyush Shah** - Director
9. **John Piper** - Swiss Re Board Observer

MANAGEMENT TEAM

1. **JACKIE TONUI** - *Group Head of Corporate Communications*
2. **SHEILA GICHUHI** – *Head of Health Business Development*
3. **JAMES NYAKOMITTA** - *Group Chief Information Officer*
4. **MANJU NAUL** – *Director of Operations*
5. **CAROLINE KAMAU** - *Director of Business Development*
6. **CHRIS NGALA** – *Group Head of Internal Audit*
7. **JUDITH BOGONKO** – *Group Head of Customer Service*
8. **SJ NJOROGE** – *Chief Operations Officer*

9. **LUCY KURIA** - *Head of Care Team*
10. **VINOD BHARATAN-** *Chief Executive Officer*
11. **SHALINI GOSWAMI** – *Head of Health Claims*
12. **AMOS MABUKA** - *Director of Business Development*
13. **CHARLES WAMBUA** – *Head of Micro Insurance/Agri Business*
14. **JOHN KIGOCHI** – *Chief Finance Officer*
15. **JULIANA NGULI** - *Group Head of Human Resources*
16. **PARUL KHIMASIA** – *Chief Business Development Officer*

CHAIRMAN'S STATEMENT

James Gitoho
Chairman

It is my pleasure to present the Company's 2017 Annual Report and Financial Statements. The company recorded a reasonable performance amidst a challenging business and political environment as enumerated later.

Economy & business environment overview

The International Monetary Fund has raised its estimate for global economic growth in 2017 and 2018, citing stronger expansion in the first half of the year in the Eurozone, Japan and some emerging markets. The IMF said the pickup in activity that started in the second half of 2016, "gained further momentum" in the first half of 2017.

On the domestic front, the World Bank downgraded Kenya's estimated GDP growth to 4.9% for 2017 from a 5.5% estimated at the beginning of the year. This is a 90 basis points drop from a 5.8% growth recorded in 2016. The expected deceleration in growth is attributed to declining economic activity driven by poor weather in most parts of the country with the resultant drought adversely affecting crops and livestock and coupled with low credit growth in the private sector following the enactment of the interest rate cap in September 2016. In 2017, the political environment regarding elections affected growth as a wait and see mode was set for local and foreign investors. Insurers also struggled to expand coverage among a large informal economy and income-sensitive population.

Inflation stood at 7.98% for the year, an increase from 6.31% in 2016. The Government's upper projection of 7.5% was surpassed due to the factors outlined above. The Government intervened on food inflation through application of price ceiling on maize flour when it averaged 13.5% with a high of 21.5 % in May 2017, but generally, overall inflation is still below the sub Saharan average which stands at 9.5 % and the East African average at 9.9%. By the close of the year, inflation dropped to 4.5% which was a positive move.

The Kenyan shilling remained stable, depreciating by 0.65% in 2017 with the average exchange rate at KShs. 103.42, compared to 101.49 in 2016. The average foreign exchange reserve stood at USD 7,657 million. The Monetary Policy Committee benchmark was maintained at an interest rate of 10% and despite the drought and the elections, other macroeconomic indicators remained stable. This has assisted to anchor inflation within the Government target, sustain macroeconomic stability as well as stabilize the exchange rates.

The 91 day Treasury Bill interest rate averaged 8.4% in 2017 from 8.6% in 2016. Banks' average lending rates stood at 13.67% and deposit rates at 7.46% due to interest rate capping. Private sector growth declined from 4.1% in 2016 to 2.4% in 2017, mainly due to reduced credit in agriculture, trade, transport, finance & insurance and private households.

The debt portfolio in Kenya grew by 19.4%, resulting from a 23.9% growth in external debt whilst domestic debt grew 15%. External debts accounted for 51.4% of the total debt while domestic debt was at 48.6%. In the external debt portfolio, multi-lateral debt accounted for 35.6%, bilateral debt at 33.6% and commercial banks at 30.8%.

At the end of the year, T-bills accounted for 31.9% of the total domestic debt while T-Bonds accounted for 68.1%. Banking institutions held the majority of the government debt at 54.6%, pension funds at 27.5%, parastatals at 6.9%, insurance companies at 6.4% and the balance of 4.6% held by individuals and other sectors. Kenya's debt to GDP ratio increased from 42.1% five years ago to 56.4% in 2017.

The Insurance sector has seen some mergers and acquisitions in addition to several global brands entering the market in recent years. This is definitely propelled by the industry potential in light of the paltry penetration levels. The Insurance Regulatory Authority (IRA) celebrated its 10th anniversary with widespread publicity aimed at educating the public on the necessity of insurance and their rights.

CHAIRMAN’S STATEMENT (continued)

Economy & business environment overview (continued)

We believe that for penetration levels to leapfrog, then, there is need for collaborated efforts with all the stakeholders and implant the idea through the curriculum.

The IRA has extended the compliance with Risk Based Capital requirements to June 2020 from earlier requirement to comply by June 2018. This has come in as a short term relief to many players as it gives room for shareholders to reorganise compliance before the due date. The implementation of the Risk Based Capital is expected to cure some of the highlighted industry and business risks through mergers and acquisitions.

Additionally, the regulator has issued a number of other operational and management guidelines to streamline the industry towards better management and protection of the stakeholders. Our board and management remain vigilant towards ensuring that the Company is compliant with all the relevant guidelines and regulatory requirements.

On the heels of the three insurance guidelines enacted in 2017 on Capital Adequacy, Valuation of Technical Provisions, and Investments Management, IRA has introduced four new regulations aimed at operationalizing some of the sections of the Insurance Act. These regulations are on Micro insurance, Takaful, Bancassurance and Group Wide supervisions and are currently being reviewed by the stakeholders.

With more than 50 registered underwriters, the Kenyan insurance market continues to be fraught with unhealthy competition leading to undercutting, high levels of fraudulent claims, fragmented approach to common industry issues and inadequate capacity to underwrite specialised risks like oil & gas and some mega infrastructure projects.

Financial performance

The Company’s thrust to write profitable business for sustainability was fully tested in 2017 with the overall premiums written dipping by 7.7% to Shs 8.3 billion from Shs 8.99 billion recorded in 2016. This was against a backdrop of industry growth rate of 3% in the year. It is however gratifying to note that the company posted positive underwriting result of Shs 66 million from a loss of shs 127 milliom in 2016. Fundamentally important is motor private booked profit of Shs 84 million after a long spell of years of underwriting losses.

The company will build on the various customer service initiatives and prompt claims settlement philosophy to move to the next level and indeed regain it’s market share and position.

The profit before taxation for the year is Shs 792.3 million from Shs 808.5 million in 2016, a 2% decrease attributed to the challenging business environment. Despite the marginal drop in profitability, the capital adequacy ratio significantly improved to 249% from 191% in 2016, one of the highest in the market. The board has considered the healthy retained profits over the years and the need to maintain optimal capital adequacy ratios and recommends a dividend of Shs 1,500 million (2016: Shs 200 million), a clear testament of the confidence and positive outlook in your Company.

Other comprehensive income

During the year, the company recognised other comprehensive income amounting to Shs 279.8 million (2016: Shs 270.5 million loss) mainly due to a corrective year of quoted equities performance after a 2 year stint of underperformance. The quoted equities fair value gain in 2017 was Shs 169.6 million (2016: Shs 307.8 million loss).

The total comprehensive income stood at Shs 939.6 million (2016: Shs 379.1 million). Consequently, the shareholders’ funds grew by 14% to Shs 6 billion with a 16.7% return on equity (2016: 7.5%). This growth will no doubt bolster the company’s financial strength and provide adequate buffer under the risk based capital requirements.

Awards and recognition

During the year, the company received various awards and accolades, thanks to the unwavering support of our clients and business partners. Some of the awards were:

- Fraud detection and protection award – winner
- Major loss (claim) award – winner
- Training award – winner
- Judges choice of the most improved general insurer

As the current year started, we were humbled to be awarded with the coveted general insurer of the year in the AKI Agents of the Year Awards (AAYA).

The awards which are wide ranging is a clear testimony of the commitment by our staff and I congratulate the team as they deliver on our mission of putting smiles on the faces of stakeholders.

We always put our customers first, that’s why the judges picked us first

CHAIRMAN'S STATEMENT (continued)

Regional presence

The Apollo Group has operations in Kenya, Uganda and Tanzania with an elaborate branch network for prompt service delivery, truly making the Group an East African focused player. APA footprint in Kenya stands at 30 and still growing in line with our business plans, digital strategy and the rejuvenated profit centre concept. Group synergies continue to be harnessed in order to enlarge the pie and ensure optimal returns to each entity and group.

In Tanzania, our associate company, Reliance Insurance Company (Tanzania) Limited where we are the largest single shareholder was equally affected by heavy competition and deteriorating industry underwriting practices.

Reliance recorded a 25% premium income decline to Kenya shillings 878 million and has a strong asset base of Kenya shillings 2.22 billion.

Reliance Tanzania is pleased to note that the Global Credit Rating Agency have upgraded the rating from "A" to "A+". The rating upgrade reflects the Company's maintenance of strengthened earnings capacity while key credit protection matrix remained at strong levels.

Management appointment

The board is pleased to report that Mr. Vinod Bharatan joined the company in June 2017 as the CEO and Principal Officer. Vinod is a seasoned insurance professional with diverse experiences in the Indian and Kenyan markets. The board looks forward to his stewardship in fulfilment of our mission and vision and will accord him the necessary support.

Outlook

Having successfully concluded a very competitive general election in August 2017, and a repeat presidential election after the unprecedented presidential election nullification, there is now a collective sigh of relief all around. Optimism in the economy has been rejuvenated by the recent truce between the two national leaders. The capital spending that had been deferred pending the election process is expected to be unlocked going forward.

After the successful rollout of the new general insurance system in 2017, the Company has now embarked on a digital strategy path that is fully customer centric.

The objective is continuous innovation, rollout new products, explore new distribution channels and ultimately ensure superior service delivery to customers at their comfort. This is an exciting journey of which the board and management are taking keen interest as it's success will be a major breakthrough for the industry and insurance penetration.

The insurance industry is a core of the financial services sector that contributes to the financial deepening of an economy. No doubt, the sector attracts stringent regulations. Looking ahead, two areas of industry disruptions are likely to shape the sector in the medium term. First is the full implementation of Risk Based Capital that may lead to mergers and acquisitions. Secondly, effective 1st January 2021, a new International Financial Reporting Standard (IFRS) 17 on Insurance Contracts will make a significant change from current reporting and entities in this sector will have to start preparations and any system adjustments now.

Kenya's economic growth barring the impact of huge debt levels and rampant corruption is expected to rebound. The International Monetary Fund sponsored economic reforms on reducing fiscal deficit and amending interest rate controls are expected to continue as part of a stand-by facility arrangement. The Government's renewed focus on the big 4 agenda - Agriculture, Low income housing, Affordable health and Manufacturing is expected to provide a ray of hope to the Kenyan populace and opportunities to private sector.

Appreciation

On behalf of the Board, I wish to express our deep gratitude to our clients, insurance intermediaries, reinsurers, business partners, suppliers, service providers, shareholders and the regulatory authorities for the business and support throughout the year.

I recognise and appreciate the management and staff of the company for the loyalty, dedication and hard work that has made these results possible.

Finally, to my fellow directors, thank you for your commitment, support and considered advice that is so essential in this extremely competitive and specialised industry.

James Gitoho

Chairman

16 March 2018

APA PERSONAL ACCIDENT

Life is full of surprises, some good and some bad. Keep yourself insured from the bad ones with an APA Personal Accident cover.

APA, Insuring Happiness.

CEO'S STATEMENT

Vinod Bharatan
Chief Executive Officer

It is an honour for me to present the 2017 CEO's report. Firstly, I would like to thank the board for offering me the opportunity to lead this great company.

Insurance industry

The Kenyan insurance market continues to face numerous challenges. These include very low insurance penetration, high risk, increasing incidence and cost of fraud and increased competition from new entrants, which include some global brands in an already crowded industry. Many market participants have responded to these developments by reducing premiums to retain market share leading to deterioration in underwriting results. Service standards have been compromised and overall profitability has reduced. Not surprising therefore, the 2017 results have deteriorated in comparison to the 2016 results.

The Regulators support in addressing various challenges has improved the way of doing business and inspiring more confidence in the market. The fraud detection unit at the IRA, Insurance Regulatory Authority, is a step in the right direction in addressing the major challenges of fraud, affecting the industry.

The current economic environment in the country provides numerous opportunities for growth. This will have a direct impact on insurance companies which are set to benefit from development in new sectors such as oil and gas, Infrastructure including road expansion programs and power generation projects. At APA, we are excited about these developments and are positioning ourselves to take advantage of these opportunities as they arise.

APA Insurance is committed to matching the highest international standards of product and service delivery and believes that the quality of our people and the focus on meeting the needs of our customers will enable the Company to outperform both local peers and new entrants.

Economy

2017 will be remembered as one of the most challenging years in the history of the country in the recent times. The impact of the 2017 election in the second half of the year coupled with a global economic downturn have brought about a financial and economic slump of a severity that has not been experienced since the 2007-2008 post-election violence.

The World Bank scaled down the Kenya economy estimated GDP growth for 2017 from 5.5% projected at the beginning of the year to 4.9%, the insurance industry was also not immune to this unfavourable trends blowing across the country. The Kenyan Insurance Industry which had grown by CAGR OF 15% over the past 5 years saw its growth come down to 3% during the year.

The continuing drought in many parts of the country and the reduced credit from the banking sector coupled with the run up to and aftermath of a bitterly contested Presidential election had its inevitable negative effect on the economy.

Company performance

Our company's performance was mixed in this challenging environment. The key highlights are:

- Gross premium income was Kshs 8.303 billion, a negative growth of 7% of the previous year's Kshs 8.995 billion
- Underwriting profit of Kshs 66.1 million from an underwriting loss of Kshs 127.4 million in the previous year.
- Investment income stood at Kshs 1.061 billion
- Registered a profit before tax of Kshs 792 million
- Shareholders funds rose to Kshs 6 billion from Kshs 5.263 billion
- Return on equity was 16.7%

CEO'S STATEMENT (continued)

The negative growth was the result of a conscious decision to shed loss making motor business especially motor private. Unfortunately this strategy led to the loss of profitable business to some extent in other classes. Nevertheless, this strategy has paid off in terms of shoring up our bottom line since the motor private portfolio turned the corner and showed a respectable profit of Kshs 84 million after several years of underwriting losses.

The medical business has shown a healthy growth of 14% and in fact has exceeded the 2017 budget of Kshs 3.155 billion to register a production of Kshs 3.390 billion. The profitability of the general line of business has improved with the loss ratio declined to 61.8% from 72% in 2016, while that of medical has increased to 78% from 73% the previous year.

Initiatives

We have unveiled our new brand promise: Insuring Happiness

APA is an organisation that has always put the client in the front. We have provided innovative and indeed novel solutions which take care of our clients wellbeing. We felt we can do better by going the extra mile. We will make sure that our clients happiness is improved by insuring with APA.

On the marketing front we have given an added emphasis to push retail products and tap this segment of the market which is where the growth potential for the future lies, the corporate section having reached saturation and heavily prone to premium undercutting.

APA has come out with products focusing on individual and family covers, cross selling between our life and general classes and targeting medium size businesses. We have come up with a package policy for schools to take advantage of the Government directive that all schools should be insured. We have been strictly monitoring adherence to the customer charter which was unveiled in 2016. To enhance the customer experience, we have partially implemented a contact centre which is expected to be fully operational by mid-2018.

We hosted an APA awards night in Nairobi and Mombasa to recognize and honour our top performing intermediaries in various categories. This has elicited a very positive response. Going forward this will be a regular feature of our event calendar and we intend to replicate this in central, western and eastern regions.

Micro & agribusiness

Agriculture in Kenya contributes almost 27% of the GDP with crop production contributing approximately 78% and livestock 22% respectively. APA has positioned itself to tap the market and throughout 2017, APA remained the lead insurer for the Agri-insurance Pool for the government business for both crop and livestock. Overall we did 68 Million (60% Livestock, 40% Crop) for agribusiness and 79 Million for other micro business, 147 Million in total.

During the 2017 period, we also settled the biggest claim for the Government KLIP program amounting to 533 Million, on behalf of the pool members. Swiss Re had provided reinsurance for the next 5 years beginning 2018. This will be captioned in the new APA Apollo business strategy.

Technological advancement

In April 2017, as part of our commitment to providing quality products, exceptional customer service, and a modern environment with increased automation and greater effectiveness for servicing APA's clients and brokers, we upgrade our General Insurance System. The system upgrade has enhanced the firm's efficiency and competiveness by leveraging on modern and innovative technology solution. Besides the usual modules for an insurance system it includes portals for clients, intermediaries, claims intimidation, and an upgraded Customer Relationship Management.

Going forward, we will launch a full-fledged digital strategy in 2018 focused on enhancing customer experience which includes providing convenience as a value in our insurance package.

Recognition and awards

APA participated in the 2017 Annual Think Business Insurance Awards whose objective is to encourage innovation and excellence in the Insurance sector by recognizing, awarding and celebrating exemplary performers and successes of the sector.

APA won eleven awards out of the eighteen categories, scooping five overall winners' positions, three 1st runners up positions and three 2nd runners up positions.

APA Insurance was acknowledged as the overall winner in 5 categories, best in Claim Settlement, Fraud detection & Protection, Major Loss award, Training award and Best in Customer Satisfaction Index. Product innovation, effective use of Information Communication Technology (ICT), and a customer-oriented approach are some of the criteria judges looked at to award winners. APA scored highly in all the criteria.

In a service industry like ours a company is as good as its people. We at APA firmly adhere to this philosophy and to this end our company makes a considerable investment every year on training and development of our staff. Trainings are conducted through our APA academy, external facilitators and the Swiss Re e-portal.

Corporate social responsibility

At APA we understand that we have a responsibility to our society and we have made Corporate Social Responsibility (CSR) an integral part of our business culture. To underline our deep commitment to making a difference in people's lives, we are guided by an existing policy and we commit to a substantial budgetary allocation each year to CSR initiatives. Our objective remains to support sustainable projects that uplift the standards of communities that we partner with for support.

CEO'S STATEMENT (continued)

Challenges

Challenges facing the industry are many and some of these if not closely monitored can pause a serious threat to the survival of any company the greatest challenge is the problem of outstanding debt. For the year 2016 it stood at 21.5% of the gross premium booked for the industry as a whole. As at the end of Q4 2017 the overall debt was 26.99% of total business booked. Our company outstanding debt stood at 29.8% at the end of 2017. The shortcomings of the previous system was partially responsible for our outstanding debt to balloon to this extent. However, after the implementation of the new system and a stringent credit control policy things have come under control and the old legacy debt is also being gradually squared off.

As at the end of 2016 we had a network of 12 branches and 20 liaisons. However a detailed analysis of all these offices has revealed that some of them are not adding any value and are in fact a drag on the resources of the company and their continued existence is not viable. Consequently, Eastleigh liaison has been closed down and we are in the process of shutting down our Isiolo Liaison.

Another major challenge faced by the industry from 2014 onwards is the reckless undercutting of rates by some companies which has had the result of lowering rates across the board in the market. Until 2017 fire & engineering risks considered as 'listed risks' were subjected to IRA rating. In 2017 the rating committee was disbanded in anticipation of implementation of Risk Based Capitalisation. Following this the rates are being undercut recklessly. At APA we have taken a conscious decision not to indulge in rate cutting to grow our topline but at the same time protect our profitable portfolios by adjusting rates whenever necessary.

The viability of the medical business is under tremendous pressure due to runaway medical inflation which stands at 15% to 20% year on year. We have put in place measures to contain this by negotiating rates with service providers and also discounts for quick settlement of their bills. We have also started encouraging patients to utilize NHIF at the service delivery point both for in-patient and outpatient.

Outlook

Having weathered the storms of 2017 successfully, topped off with a rapprochement between the two bitter political rivals the nation now looks forward with optimism to 2018.

The Government has loosened its purse strings and infrastructure spending is expected to receive a big boost. Investors who had adopted a wait and watch policy have started to pump in money in various projects in the private sector. The outlook of the Kenyan economy going forward appears to be bullish for the near term. The Government's big four initiatives will not only give a fillip to the economy and hopefully open up opportunities for the insurance sector in the affordable housing and health care initiatives.

The Insurance Industry is going to be affected in the medium term, by two developments. First implementation of risk based capital requirement which was expected to be implemented in 2018 but has now been deferred to 2020. We were keenly looking forward to this since it would have brought about seriousness in managing capital, underwriting and claims. It should open up a window of opportunity for us. Secondly the proposed adoption of IFRS 17 with effect from 1st January 2021 will bring in radical changes from the current reporting system.

Appreciation

The contributions of APA's various stakeholders have ensured that continued strong performance is achieved. These are none other than our business partners, intermediaries and customers. I would like to thank you for your continued support and loyalty, which have been instrumental in reinforcing APA's position as the financial services provider to reckon with in the Kenyan insurance market.

I also thank all our staff across the country who continue to show dedication and provide superior service to our customers. I would also like to acknowledge with appreciation my colleagues in the management and the Board Directors for their diligence, guidance and support that has ensured that we achieve superior and excellent results during the year.

Vinod Bharatan
Chief Executive Officer
16 March 2018

NAMED DRIVER POLICY

Motor insurance is expensive but with our new Named Driver Policy, it doesn't have to be. This unique enhancement allows you to add other named drivers to your comprehensive motor cover, who will benefit from the same level of cover as the main driver.
This reduced risk translates to lower premiums for you, making your wallet happier.

APA, Insuring Happiness.

MOST AWARDED INSURANCE COMPANY
ANNUAL INSURANCE AWARDS 2017

We always put our customers first, that's why the judges picked us first.

APA is the Most Awarded Insurer at the 2017 Annual Insurance Awards.

Winner

- Best in Claim Settlement (Life)
- Fraud Detection & Protection
- Major Loss Award
- Training Award
- Best in Customer Satisfaction Index

1st Runners Up

- Best in Product Marketing
- Best in Product Innovation
- Best Insurance in Use of Technological Application

2nd Runners Up

- Best in Claim Settlement (General)
- Risk Management Award
- Socially Responsible Corporate

APA MOTOR INSURANCE

Your car doesn’t just give you freedom to move around, it helps you create lots of happy memories. Insure your car against accident and theft to keep making great memories.

FINANCIAL HIGHLIGHTS

APA DOMESTIC COVER

Being a home owner means keeping you and your household safe. The APA Domestic Insurance lets you cover your house, contents and domestic helpers against loss or injury.

APA, Insuring Happiness

CORPORATE GOVERNANCE STATEMENT

Introduction

Good corporate governance is key to the integrity of corporations, financial institutions and markets and is central to the health of our economies and their stability. Corporate governance plays a leading role in making certain how corporations and their boards and management are directed, controlled and held to account. Corporate governance therefore encompasses the systems, practices and procedures by which the individual corporation regulates itself in order to remain competitive, ethical, sustainable and fair.

The Board of APA Insurance Limited follows principles of openness, integrity and accountability in its stewardship of the company's affairs. It recognises the developing nature of corporate governance and assesses the company's compliance with generally accepted corporate governance practice on a regular basis, directly and through its Board committees and Management. The role of the Board is to ensure conformance by focusing on and providing the company overall strategic direction and policy-making as well as performance review through accountability and ensuring appropriate monitoring and supervision. The Board is also responsible for the overall system of internal control and for reviewing its effectiveness. The controls are designed to both safeguard the company's assets and ensure the reliability of financial information.

A senior management team, comprising executive directors, divisional directors and senior managers meets regularly to consider issues of operational and strategic importance to the company.

Below are the key features of the existing corporate governance practices within the company which are reviewed and improved on a regular basis:

1. Board of Directors

The Board of Directors consists of seven directors out of whom three are independent non-executive directors. The Chairman of the Board is a non-executive director and the Board meets formally at least four times a year.

The Board is responsible for setting the direction of the company through the establishment of strategic objectives, key policies and the approval of budgets. It monitors the implementation of strategies and policies through a structured approach to reporting by executive management and consequent accountability.

The directors are actively involved in and bring strong independent judgement on Board deliberations and discussions. These directors have a wide range of knowledge and experience of local and international markets that is applied to the formulation of strategic objectives and decision making.

All directors have access to the advice and services of the Company Secretary and are entitled to obtain independent professional advice on the company's affairs.

The Board meets regularly and retains full and effective control over the company in all strategic, financial, operational and compliance areas. In 2017, four board meetings were held and the attendance by the directors was as follows:

Director	Total board meetings in the year that the director was eligible to attend	Number of board meetings attended
JN Gitoho - Chairman	4	4
DM Ndonye	4	4
AKM Shah	4	4
SM Shah	4	4
R Schnarwiler	4	4
RM Ashley	4	3
P Shah	4	4

To assist the Board in the discharge of its responsibilities, Board committees have been established. All the Board committees meet at least four times a year. The committees are as follows:-

CORPORATE GOVERNANCE STATEMENT *(continued)*

(a) Audit and Risk Committee

The audit and risk committee comprises four non-executive directors. The committee is responsible for, inter alia, developing and advising on audit and financial controls and compliance issues of the company. It also defines the scope of the internal audit function and acts as a liaison between the external auditors and management. The current members of the committee are R Schnarwiler (Chairman), JN Gitoho, SM Shah and DM Ndonye.

(b) Information and Communication Technology (ICT) Committee

The ICT committee comprises two directors and the professional nominated under shareholders agreement. The committee provides guidance to the Board on ICT requirements for the company, provide assurance that the ICT systems in place are able to generate accurate and timely management reports and also review ICT budgets and recommend for their adoption by the Board. The committee also ensures that there are business continuity plans in place for the company. The current members of the committee are PH Shah (Chairman), P Shah and AKM Shah.

(c) Investment Committee

The Board has an investment committee comprising three non-executive directors and the Executive Director. This committee is responsible for determining the company's overall investment strategy and monitoring its implementation. The current members of the committee are DM Ndonye (Chairman), SM Shah, RM Ashley and AKM Shah.

(d) Remuneration Committee

The remuneration committee currently consists of four non-executive directors and the Executive Director. Its primary objective is to ensure that the right calibre of management is recruited and retained and set guidelines for remuneration of staff. The non-executive directors on the committee are responsible for agreeing the terms of service in respect of the executive directors.

The committee is also responsible for ensuring that the terms and conditions of service for management and staff is fair, appropriate and reflect the market conditions. The current members of the committee are JN Gitoho (Chairman), R Schnarwiler, DM Ndonye, P Shah and AKM Shah.

2. Internal Controls

The company has implemented and maintains internal controls designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard and maintain accountability of the company's assets. Such controls are based on established policies and procedures and are implemented by trained personnel with appropriate segregation of duties. The effectiveness of the system of internal controls is monitored regularly through internal audit function, operational meetings and the annual external audit.

3. Related Party Transactions and Directors' Remuneration

The related parties' transactions with the group companies during the year ending, 31 December 2017 are detailed under note 35 of these annual report and financial statements.

The remuneration for non-executive directors consists of fees and sitting allowances for their services in connection with the Board and committee meetings. These fees and allowances are approved by the members at the annual general meetings.

The aggregate amount of director's remuneration for services rendered during the year ending 31 December 2017 are contained under note 35 of these annual report and financial statements.

4. Social and Environmental Responsibilities

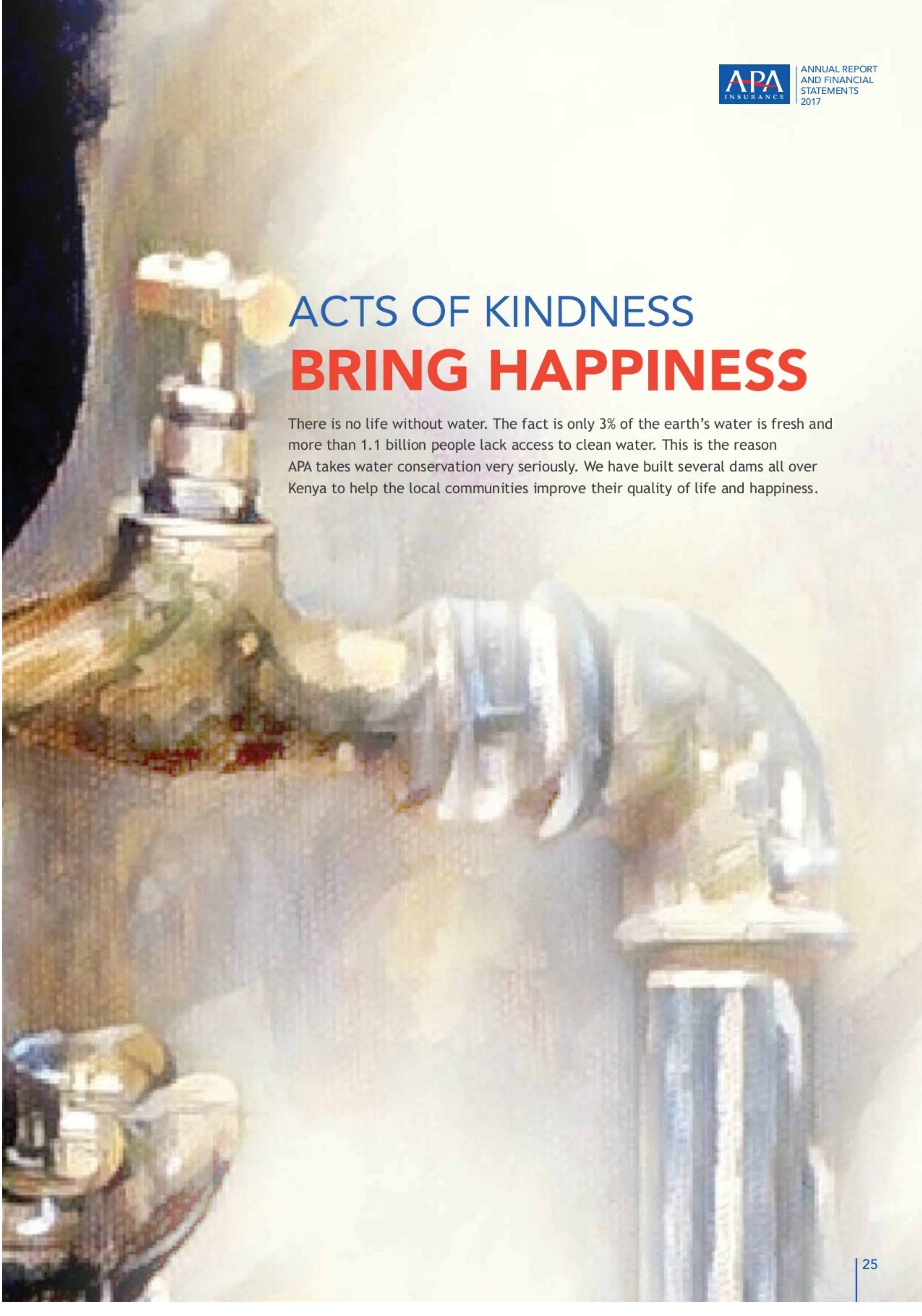
The Board is conscious of the Company's social and environmental responsibilities. Particular attention is given to projects with a long time positive impact to the society and environment. These include employees' welfare programmes, education and health activities, empowering the youth and provision of clean and safe drinking water. The company encourages staff to participate and actively supports them in various causes.

5. Going Concern

The directors confirm that the Company has adequate resources to continue in business for the foreseeable future and therefore the continued use of going concern as a basis of preparing the financial statements is appropriate.

James Gitoho
Chairman
16 March 2018

Ashok Shah
Director



ACTS OF KINDNESS
BRING HAPPINESS

There is no life without water. The fact is only 3% of the earth's water is fresh and more than 1.1 billion people lack access to clean water. This is the reason APA takes water conservation very seriously. We have built several dams all over Kenya to help the local communities improve their quality of life and happiness.

CORPORATE SOCIAL RESPONSIBILITY

Ashok Shah - *Apollo Group CEO pumping water from one of the finished wells.*

Overview

At APA APOLLO we understand that we have a responsibility to our society and we have made Corporate Social Responsibility (CSR) an integral part of our business culture. To underline our deep commitment to making a difference in people's lives, we are guided by an existing policy and we commit to a reasonable budgetary allocation each year to CSR initiatives.

We play a role in connecting people with each other, with other communities and key community services. The operation of our services touches on all members of the community with the potential to impact positively on their quality of life. We also operate from a significant number of properties and have responsibility to those living and working nearby as well as being a significant employer; directly employing over 400 staff.

Our relationships with the local communities we serve are therefore very important to us and are an essential part in the growth of our business. When developing our products and processes, we have a role to play in improving services for the community as a whole and not just our individual customers.

Our objective remains to support sustainable projects that uplift the standards of communities that we partner with for support.

The group's corporate social responsibility programs focus on four key pillars:

1. Sustainable clean water supply to communities
2. Empowering the youth
3. Education and health activities
4. Environment conservation.

Water conservation

APA Apollo Foundation is the umbrella Trust that is funded by APA/Apollo Group and contributes towards the construction of sand dams. The Trust has been in existence since 2006 and has constructed 17 sand dams in arid and semi-arid areas of Kenya (Machakos, Makueni and Kajiado).

The strategic goal is to enhance food security for all in society by providing communities in semi-arid areas, accessibility to reliable water supply. This is achieved by the construction of sand dams on dry river beds to harness the water that only flows during rainy seasons. The water is retained in the sand that is deposited behind the dam. An artisan well with a hand pump is provided for easy access by the community. The natural filtration through the sand gives clean drinking water that is used both for agriculture and household.

CORPORATE SOCIAL RESPONSIBILITY (continued)

Staff at a tree planting exercise

With over 5,500 households that required water, the communities partnered with APA staff members and the Utooni Development Organization; a non-government organisation that specializes in the construction of sand dams and built the three dams that will support these households in the long term.

Some of the key objectives that this project has met include:

- Enhancing water security for all in the society
- Increasing accessibility to clean water
- Increase in food supply
- Reducing commuting for long distance to fetch water for women and the children
- Ensuring that the community at large is able to participate in other income generating activities as long hours spent in fetching water have been reduced

Youth initiative programmes

(i) APA / APOLLO bursary fund

The APA bursary scheme was created to educate the top achieving boy and girl from Cheleta Primary School and hailing from Githongoro slums in the outskirts of Runda.

The bursary fund is currently in its 11th year and has 12 students in the bursary program whilst 14 have benefited over the years.

Cheleta School's overall performance has greatly improved since the bursary program was introduced with the mean score rising to above 50%. This is due to competition amongst the pupils. The bursary caters for the secondary education tuition, necessary personal effects and also the non funded university tuition.

(ii) Recreation through sports

APA promotes sporting activities by supporting the Runda Youth Sports Association (RYSA) football team. The sponsorship includes the fees for RYSA to participate in various leagues and provides the football kits, for logistics and team allowances.

The RYSA football team participates in the Nairobi County league which is under the Football Kenya Federation. Overall the team is in sixth place in a league of 13 teams. In addition, APA organizes tournaments for the team in order to boost and continue to nurture the soccer talents and positively engage the youth in Mji wa Huruma and Githongoro villages.

RYSA *football team at a recent football match*

Environment conservation

Our commitment to protecting and conserving the environment is core to our business and it is our objective to plant and maintain at least 1,500 trees every year. In partnership with Egerton University, we have created the Ngongogeri Park and every year we plant 1,500 seedlings with our staff and Egerton students. We are also key partners and sponsors in the annual 'Run for Mau' marathon whose main objective is to conserve the mau forest.

Through the APA Apollo Foundation sand dam projects, we ask the benefiting communities to plant trees along the river beds to help curb soil erosion, provide food as well as beautifying the landscape. A minimum of 10 trees are allocated for planting and maintenance to each household that benefits from the sand dam.

We have also partnered with "Friends of Karura" and "Greenline Project" to plant trees in both the Karura forest and Nairobi National park in an effort to curb urban encroachement.

Environment conservation has also been embraced at departmental level by the APA staff through the annual departmental CSR activities.

Mina Shah - *presenting a cheque to Vice Chancellor of Egerton University*

APA MARINE INSURANCE

Your reputation is the most important thing you have as a business . With APA Marine Insurance, you can keep your customers happy and reputation on efficient deliveries intact. We cover your goods and freight against loss or damage while being transported by rail, road, sea and/or air from loading to the final destination

APA, Insuring Happiness

APA JAMII PLUS

Keep your family insured with APA Jamii Plus Health Insurance which covers all your family members between the ages of 1 month to 75 years.

APA, Insuring Happiness

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

The directors submit their report together with the audited financial for the year ended 31 December 2017, which disclose the state of affairs of APA Insurance Limited (the 'Company').

Incorporation

The Company is incorporated in Kenya under the Kenyan Companies Act as a private company limited by shares, and is domiciled in Kenya. The address and the registered office is set out in page 4.

The Company has investments in the following associated companies;

- Reliance Insurance Company (Tanzania) Limited, incorporated in Tanzania as a private company limited by shares and is domiciled in Tanzania
- Gordon Court Limited, incorporated in Kenya as a private company limited by shares and is domiciled in Kenya

Business review

The principal activity of the company is the transaction of general insurance business.

The key risk that the Company faces is insurance risk which arises from the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim.

Summary results	2017 Shs' 000	2016 Shs' 000
Gross written premium	8,303,075	8,995,974
Profit for the year	659,764	649,578
Total comprehensive income attributable to shareholders	939,575	379,128
Return on equity (%)	16.7%	7.5%
Capital adequacy ratio – CAR (%)	249%	191%

Dividend

Profit for the year of Shs 659,764,000 (2016: Shs 649,578,000) has been added to retained earnings.

The directors recommend the payment of Shs 1,500,000,000 dividends in respect of the year (2016: Shs 200,000,000).

Directors

The directors who held office during the year and to the date of this report are set out on page 4.

Disclosure to auditors

The directors confirm that with respect to each director at the time of approval of this report:

(a) there was, as far as each director is aware, no relevant audit information of which the company's auditor is unaware; and

(b) each director had taken all steps that ought to have been taken as a director so as to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Terms of appointment of auditors

PricewaterhouseCoopers continue in office in accordance with the Company's Articles of Association and Section 719 of the Kenyan Companies Act, 2015.

The directors monitor the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the shareholders.

By order of the Board

Secretary
16 March 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

FOR THE YEAR ENDED 31 DECEMBER 2017

The Kenyan Companies Act 2015 requires the directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company at the end of the financial year and its financial performance for the year then ended. The directors are responsible for ensuring that the company keeps proper accounting records that are sufficient to show and explain the transactions of the company; disclose with reasonable accuracy at any time the financial position of the Company; and that enables them to prepare financial statements of the company that comply with prescribed financial reporting standards and the requirements of the Kenyan Companies Act 2015. They are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act 2015. They also accept responsibility for:

i. Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;

ii. Selecting suitable accounting policies and then apply them consistently; and

iii. Making judgements and accounting estimates that are reasonable in the circumstances

In preparing the financial statements, the directors have assessed the Company's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

Approved by the board of directors on 16 March 2018 and signed on its behalf by:

James Gitoho
Chairman

Ashok Shah
Director

REPORT OF THE CONSULTING ACTUARY TO THE SHAREHOLDERS OF APA INSURANCE LIMITED

I have conducted an actuarial valuation of the insurer's insurance liabilities as at 31 December 2017.

The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Insurance Act, Cap. 487 of the Laws of Kenya. Those principles require that prudent principles for future outgo under contracts, generally based upon the assumptions that current conditions will continue. Provision is therefore not made for all possible contingencies.

In completing the actuarial valuation, I have relied upon the audited financial statements of the Company.

In my opinion, the insurer's insurance liabilities reserves of the company were adequate as at 31 December 2017.

Name of Actuary:	**James I. O. Olubayi** **Fellow of the Institute of Actuaries (FIA)**
Signed	**16 March 2018**

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF APA INSURANCE LIMITED

Report on the financial statements

Opinion

We have audited the accompanying financial statements of APA Insurance Limited (the "Company") as set out on pages 38 to 79, which comprise the statement of financial position at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2017 and of the financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	*How our Audit Addressed the Key Audit Matter*
Determination of insurance contract liabilities	*Our procedures included:*
The insurance contract liabilities included in note 27 (a) of the financial statements is made up of reported claims and incurred but not reported ("IBNR") claims.	• We evaluated and tested controls around the claim handling and settling and how the claims are valued and managements review process over this valuation;
The gross contract liabilities represent the ultimate cost of settling all claims arising from incidents occurring prior to the end of each reporting period, but not settled at that date.	• We checked a sample of claims by comparing the recorded amounts to the source documents such as the loss assessors reports; • We performed reconciliations between the claims data and that used to calculate the reserves;
The estimation of outstanding claims involves significant judgement given the size of the liability and the inherent uncertainty in estimating expected future claims incurred. The IBNR reserve is determined annually by the Company's consulting actuaries on the basis of the best information available at the time the records for the year are closed	• We performed a review of the methodology and assumptions used by the appointed actuary to compute the actuarial reserves as at 31 December 2017. The valuation methods used are consistent with generally accepted actuarial practice and adheres to the Insurance Regulatory Authority (IRA) guidelines on valuation of technical liabilities. • We compared the assumptions used to general industry practice.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF APA INSURANCE LIMITED (continued)

Key Audit Matter	*How our Audit Addressed The Key Audit Matter*
Valuation of premium debtors	*Our procedures included the following:*
Premium debtors comprise a significant proportion of the assets of the Company. The nature of the insurance industry in Kenya is such that a significant amount of premium is received through intermediaries (agents/brokers). At the reporting date, management reviews the receivables to determine if there is any indication of impairment; and estimate the recoverable amount in order to determine the extent of impairment loss. The judgement involved in estimating the impairment provision is subjective and thus makes this an area of significance.	• We evaluated and tested controls of the underwriting process which included how premium is booked in the system to ascertain that the premium debtor balance was supported by valid debit notes; • On a sample basis, we verified the make-up of the outstanding debtor balances by reviewing the signed debit notes and underlying policy documents; • We tested the process management has applied in making the impairment provisions; • We validated the debtors ageing and challenged management on the recoverability of overdue balances

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act 2015, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF APA INSURANCE LIMITED (continued)

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the Company's financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other matters prescribed by the Kenyan Companies Act, 2015

In our opinion the information given in the report of directors' report on pages 10 is consistent with the financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report is FCPA Richard Njoroge- Practising Certificate No.1244.

Certified Public Accountants
Nairobi

16 March 2018

TRAVEL INSURANCE

Travelling is one of the great adventures you can have in life. Whether it's for business or pleasure, you have the chance to make lots of happy memories with each trip. Keep yourself secure on your travels with APA Globetrotter. The insurance that provides 24 hour assistance in any emergency situation.

APA, Insuring Happiness

APA CROP INSURANCE

As a farmer, your harvest is the source of pride, joy and income. APA Crop Insurance protects you from loss in case your harvest doesn't go as planned.

APA, Insuring Happiness

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 Shs'000	2016 Shs'000
Gross written premium		8,303,075	8,995,974
Gross earned premium	3	8,653,265	9,760,177
Less reinsurance premium ceded		(2,565,020)	(2,508,709)
Net earned premium		6,088,245	7,251,468
Investment income	4	1,061,006	1,101,306
Commissions earned		571,665	436,097
Other income	5	1,553	12,176
Total income		7,722,469	8,801,047
Net incurred claims	6	(4,097,310)	(5,244,122)
Operating and other expenses	7	(1,828,391)	(1,715,352)
Commissions payable		(1,030,576)	(1,074,123)
Profit from operating activities		766,192	767,450
Share of profits of associates	15(a)	26,066	41,032
Profit before income tax		792,258	808,482
Income tax expense	9(a)	(132,494)	(158,904)
Profit for the year		**659,764**	**649,578**
Other comprehensive income, net of tax:			
Items that may subsequently be reclassified to profit or loss			
Change in fair value of available for sale financial assets :			
- Unquoted equity investments	15(b)	-	(22,499)
- Quoted equity investments	16	169,563	(307,836)
- Government securities	21(b)	115,032	76,122
- Investment in unit trust		255	-
Share of other comprehensive income of associates	15(a)	(2,144)	(14,306)
Exchange differences on translation of foreign operations	15(a)	(3,160)	(2,787)
Deferred tax on other comprehensive income	30	265	856
Other comprehensive gain / loss for the year, net of tax		279,811	(270,450)
Total comprehensive income for the year attributable to the owners of the company		939,575	379,128
		Shs	**Shs**
Earnings per share - basic and diluted	10	52.78	51.97

The notes on pages 53 to 79 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Notes	2017	2016
Assets		**Shs'000**	**Shs'000**
Motor vehicles and equipment	12	98,466	105,198
Intangible assets	13	72,495	35,847
Investment properties	14	1,313,000	1,225,000
Investment in associates	15(a)	618,675	597,913
Investment in unquoted equity	15(b)	14,707	14,707
Available for sale quoted equity investments	16	1,182,295	1,499,914
Investments in unit trusts		25,516	-
Current income tax	9(c)	7,729	20,458
Deferred income tax	30	295,483	215,639
Loans receivable	17	131,006	106,879
Receivables arising out of reinsurance arrangements		569,111	700,117
Receivables arising out of direct insurance arrangements		1,100,096	1,637,471
Reinsurers' share of insurance liabilities and reserves	18	2,102,040	2,006,261
Deferred acquisition costs	19	139,203	198,074
Other receivables	20	64,979	100,118
Government securities - held to maturity	21(a)	3,175,472	3,206,546
- available for sale	21(b)	4,156,858	3,341,598
Deposits with financial institutions	22	633,241	990,747
Commercial paper and corporate bonds	23	361,573	291,763
Cash and bank balances	32(b)	219,764	39,724
Total Assets		**16,281,709**	**16,333,974**
Equity and liabilities			
Equity			
Share capital	24	1,250,000	1,250,000
Available for sale reserve	25(a)	505,857	222,886
Translation reserve	25(b)	(31,070)	(27,910)
Retained earnings	26	4,277,803	3,818,039
Total equity		**6,002,590**	**5,263,015**
Liabilities			
Insurance contract liabilities	27(a)	6,654,070	6,821,504
Provision for unearned premium	28	3,095,204	3,445,393
Payables arising from reinsurance arrangements		97,647	278,138
Other payables	29	421,111	348,899
Bank overdraft	32(b)	11,087	177,025
Total liabilities		**10,279,119**	**11,070,959**
Total equity and liabilities		**16,281,709**	**16,333,974**

The financial statements on pages 38 to 79 were authorised for issue by the Board of Directors on 16 March 2018 and signed on its behalf by:

James Gitoho
Chairman

Ashok Shah
Director

The notes on pages 53 to 79 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

Year ended 31 December 2016	Share capital Shs'000	Available for sale reserve Shs'000	Translation reserve Shs'000	Retained earnings Shs'000	Total Shs'000
At 1 January 2016	1,250,000	490,549	(25,123)	3,168,461	4,883,887
Changes in equity 2016:					
Profit for the year	-	-	-	649,578	649,578
Other comprehensive income for the year	-	(267,663)	(2,787)	-	(270,450)
At 31 December 2016	**1,250,000**	**222,886**	**(27,910)**	**3,818,039**	**5,263,015**

Year ended 31 December 2017	Share capital Shs'000	Available for sale reserve Shs'000	Translation reserve Shs'000	Retained earnings Shs'000	Total Shs'000
At 1 January 2017	1,250,000	222,886	(27,910)	3,818,039	5,263,015
Changes in equity 2017:					
Profit for the year	-	-	-	659,764	659,764
Other comprehensive income for the year	-	282,971	(3,160)	-	279,811
Transactions with owners:					
Dividends					
- 2016 final paid dividend	-	-	-	(200,000)	(200,000)
At 31 December 2017	**1,250,000**	**505,857**	**(31,070)**	**4,277,803**	**6,002,590**

The notes on pages 53 to 79 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

Cash flows from operating activities	**Notes**	**2017 Shs '000**	**2016 Shs '000**
Cash generated from operations	32(a)	(76,154)	29,893
Interest received		799,516	748,881
Income tax paid	9(c)	(199,344)	(234,240)
Net cash generated from operating activities		524,018	544,534
Cash flows from investing activities			
Purchase of property and equipment	12	(25,567)	(42,834)
Proceeds from sale of property and equipment		1,488	3,531
Purchase of intangible assets	13	(60,617)	-
Purchase of quoted shares	16	(76,933)	(56,391)
Proceeds from sale of quoted shares		606,395	425,568
Investment in unit trusts		(25,000)	-
Loans advanced	17	(56,348)	(53,218)
Loan repayments received	17	32,221	40,941
Net purchase of government securities		(744,504)	(1,602,950)
Maturity of deposits maturing after 90 days		59,060	210,929
Net redemption/purchase of commercial bonds	23	(69,810)	8,238
Net cash used in investing activities		(359,615)	(1,066,186)
Cash flows from financing activities			
Dividends paid	11	(200,000)	-
Net cash used in financing activities		(200,000)	-
Net (decrease) in cash and cash equivalents		(35,597)	(521,652)
Movement in cash and cash equivalents:			
At 1 January		1,182,559	1,704,211
(Decrease)		(35,597)	(521,652)
At 31 December	**32(b)**	**1,146,962**	**1,182,559**

The notes on pages 53 to 79 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

1 General information

APA Insurance Limited ("the Company") is in the business of general insurance and is incorporated in Kenya under the Companies Act as a private limited liability company. The Company is domiciled in Kenya and the address of its registered office is disclosed under page 4.

For the Kenyan Companies Act reporting purposes, the balance sheet is presented by statement of financial position and the profit and loss account is presented by the statement of comprehensive income.

2 Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") The measurement basis applied is the historical cost basis, except for investment property, equity investments and available for sale, which have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 2(u).

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Company

The following standards and amendments have been applied by the company for the first time for the financial year beginning 1 January 2017:

Amendments to IAS 7, 'Cashflow Statements' - Statement of cash flows on disclosure initiative.
The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The amendment will affect every entity preparing IFRS financial statements. However, the information required should be readily available. Preparers should consider how best to present the additional information to explain the changes in liabilities arising from financing activities.in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.

Amendment to IAS 12 – 'Income taxes'- Recognition of deferred tax assets for unrealised losses.
The amendment was issued to clarify the requirements for recognising deferred tax assets on unrealised losses:

- Clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base.
- Clarifies certain other aspects of accounting for deferred tax assets.
- Clarifies the existing guidance under IAS 12. It does not change the underlying principles for the recognition of deferred tax assets.

(ii) New standards and interpretations not yet adopted

The Company has not applied the following new and revised standards and interpretations that have been published but are not yet effective for the year beginning 1 January 2017.

IFRS 9 Financial Instruments (issued in July 2014) – This standard will replace IAS 39 (and all the previous versions of IFRS 9) effective for annual periods beginning on or after 1 January 2018. It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition:

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

Accounting policies (continued)
2 Significant accounting policies (continued)
(a) Basis of preparation (continued)
(ii) New standards and interpretations not yet adopted (continued)

- IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.
- For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.
- For the impairment of financial assets, IFRS 9 introduces an "expected credit loss" model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognised.
- For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.

The derecognition provisions are carried over almost unchanged from IAS 39.

The Company has done the assessment of IFRS 9's full impact which will affect the classification and measurement of financial assets held as 1 January 2018 as follows:

- Equity investments - the Company holds quoted and unquoted equities as available for sale through other comprehensive income. The intention is to continue to be measured at Fair value though other comprehensive income (FVTOCI).
- Government Securities classified as available-for-sale investments carried at fair value are held with a business model whose objective is to collect contractual cash flows and selling the instruments in the open market. The directors intention is to continue measuring these instruments at FVTOCI upon the application of IFRS 9,
- Government securities and Commercial Paper are held to maturity with a business model whose objective is to collect contractual cash flows by sole payments of principal and interest. The intention is to measure these at amortised cost under IFRS 9.
- Receivables arising out of direct insurance and reinsurance arrangements will continue to be measured at FVTPL under IFRS 9.

  Financial assets measured at amortized cost under IFRS 9 will be subject to the impairment provision of IFRS 9. The Company will apply the simplified approach to recognize lifetime expected credit losses for its receivables arising out of direct and reinsurance arrangements and Life policy loans. Government Securities, Deposits with financial institutions and Commercial papers and corporate bonds are considered to have low credit risk and hence expect to recognize 12-month expected credit losses for these items.

  Amendments to IFRS 4 Insurance Contracts (issued in September 2016) - The amendments, applicable to annual periods beginning on or after 1 January 2018, include a temporary exemption from IFRS 9 for insurers that meet specified criteria and an option for insurers to apply the overlay approach to designated financial assets and a deferral approach. The amended standard will:

- Give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and
- Give companies whose activities are predominantly connected with insurance an optional exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

Accounting policies (continued)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) New standards and interpretations not yet adopted (continued)

IFRS 16 Leases (issued in January 2016) - The new standard, effective for annual periods beginning on or after 1 January 2019, introduces a new lessee accounting model, and will require a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

IFRS 17 Insurance Contracts (issued in May 2017) - establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts.

IFRS 17 - defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators.

The general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are re-measured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period.

Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less.

For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.

IFRS 17 is effective on or after 1 January 2021. Early application is permitted for entities that apply IFRS 9, 'Financial Instruments', and IFRS 15, 'Revenue from Contracts with Customers', at or before the date of initial application of IFRS 17.

Amendment to IAS 40 - clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

The amendment to IAS 40 is effective 1 January 2018.

Amendments to IFRS 10 and IAS 28- The postponement applies to changes introduced by the IASB in 2014 through narrow-scope amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures'. Those changes affect how an entity should determine any gain or loss it recognises when assets are sold or contributed between the entity and an associate or joint venture in which it invests. The changes do not affect other aspects of how entities account for their investments in associates and joint ventures.

The directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, with the exception of IFRS 9, IFRS 16 and IFRS 17, they do not expect that there will be a significant impact on the Company's financial statements. There are no other standards that are not yet effective that would be expected to have a material impact on the entity in the current or future reporting periods and on near future transactions.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

Accounting policies (continued)

2 Significant accounting policies (continued)

(b) Investments in associates

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Company's investment in associates includes goodwill identified on acquisition. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Company's share of post-acquisition profit or loss is recognised in the statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of associates in the statement of profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Company and its associate are recognised in the Company's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Company. Dilution gains and losses arising in investments in associates are recognised in the statement of profit or loss.

(c) Income recognition `

Premium income is recognised on assumption of risks, and includes estimates of premium due but not yet received less an allowance for unearned premium. Unearned premium represent the proportion of the premium written in periods up to the accounting date that relate to the unexpired terms of policies in force at the reporting date, and is calculated using the 1/365th method on written premium less reinsurance premium ceded.

Commissions receivable are recognised as income in the period in which they are earned.

Investment income is stated net of investment expenses. Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset. Dividends receivable are recognised as income in the period in which the right to receive payment is established. Rental income from operating leases is recognised on a straight line basis over the terms of the leases.

(d) Claims incurred

Claims incurred comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years.

Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the reporting date, but not settled at that date. Outstanding claims are computed on the basis of the best information available at the time the records for the year are closed, and include provisions for claims incurred but not reported ("IBNR"). Outstanding claims are not discounted.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

Accounting policies (continued)

2 Significant accounting policies (continued)

(e) Reinsurance

The Company assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance assumed are recognised as income in the same manner as they would be if the reinsurance were considered direct business. Premiums ceded and claims reimbursed are presented on a gross basis in profit and loss and statement of financial position as appropriate.

Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the company will receive from the reinsurer. The impairment loss is recognised in the profit or loss.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. The company also assumes reinsurance risk in the normal course of business for non-life insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Reinsurance assets or liabilities are de-recognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

(f) Insurance contract receivables / Receivables arising out of direct insurance arrangements

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recognised in profit or loss.

(g) Deferred acquisition costs

Deferred acquisition costs represent a proportion of acquisition costs that relate to policies that are in force after the year end. A proportion of commission payable is deferred and amortised over the period in which the related premiums are earned.

(h) Motor vehicles and equipment

All items of motor vehicles and equipment are initially recorded at cost and subsequently stated at historical cost less any accumulated depreciation.
Depreciation is calculated on motor vehicles and equipment on the straight line basis to write down the cost of each asset, to its residual value over its estimated useful life as follows:

Furniture, fixtures and fittings and office equipment	8 years
Motor vehicles	4 years
Computer equipment	3 years

Assets' residual values and their estimated useful lives are reviewed at the reporting date and adjusted if appropriate. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of motor vehicles and equipment are determined by comparing the proceeds with their carrying amounts and are recognised within 'Other gains / (losses)' in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

Accounting policies (continued)

2. Significant accounting policies (continued)

(i) Intangible assets – Computer software

Intangible assets comprise of computer software costs which are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated to write off the cost of computer software on a straight line basis over its estimated useful life of 5 years.

(j) Investment property

Investment properties comprise land and buildings and parts of buildings held to earn rentals and/or for capital appreciation. They are carried at fair value, determined annually by independent external valuers. Fair value is based on active market prices as adjusted, if necessary, for any difference in the nature, condition or location of the specific asset.

Investment properties are not subject to depreciation. Changes in their carrying amounts between the reporting dates are dealt with through the profit or loss.

Upon disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss for the year.

(k) Financial assets

Classification

The company classifies its financial assets into the following categories: loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. The classification adopted for a particular financial asset depends on the purpose for which the asset was acquired.

Management determines the classification of its financial asset at initial recognition and re-evaluates this at every reporting date.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

(ii) Available-for-sale financial assets

This classification represents financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans and receivables, or (c) financial assets held-to-maturity.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity, other than:

- those that the Company upon initial recognition designates as at fair value through profit or loss;
- those that the Company designates as available for sale; and
- those that meet the definition of loans and receivables

Interest on held-to-maturity investments are included in the statement of profit or loss and are reported as 'Interest and similar income'. In the case of an impairment, it is been reported as a deduction from the carrying value of the investment and recognised in the statement of profit or loss as 'Net gains/(losses) on investment securities'.

Recognition and measurement

Financial assets are initially recognised at cost plus transaction costs.

Available-for-sale financial assets subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

Accounting policies (continued)

2. Significant accounting policies (continued)

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated in investment revaluation reserve in the statement of changes in equity, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the statement of profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated cash receipts (including all fees, transaction costs and premiums or discounts) through the expected life of the financial asset, or where appropriate, a shorter period.

Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This includes listed equity securities and quoted debt instruments on major exchange (Nairobi Securities Exchange). The quoted market price used for financial assets held by the company is the current bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm’s length basis. If the above criteria are not met, the market is regarded as being inactive.

For example a market is inactive when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the dates of the statement of financial position
Fair values are categorised into three levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Transfers between levels of the fair value hierarchy are recognised by the Company at the end of the reporting period during which the change occurred.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment for receivables could include the company’s past experience of collecting payments, an increase in the number of delayed payments past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

Accounting policies (continued)

2. Significant accounting policies (continued)

Impairment of financial assets (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the profit or loss for the year.

Derecognition of financial assets

The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the company retains substantially all the risks and rewards of ownership of a transferred financial asset, the company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(l) Financial liabilities and equity instruments issued by the company

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Classification as debt or equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The company derecognises financial liabilities when, and only when, the company's obligations are discharged, cancelled or they expire.

(m) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks and other short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the dates of the advances.

(n) Translation of foreign currencies

The financial statements are presented in Kenya Shillings (Shs) rounded to the nearest thousand, which is the Company's functional and reporting currency. In preparing the financial statements, transactions in currencies other than the Company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

Accounting policies (continued)

2. Significant accounting policies (continued)

(n) Translation of foreign currencies (continued)

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

(o) Accounting for leases

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the company as a lessee are classified as finance leases. All other leases are classified as operating leases. Payments made under operating leases are charged to income on the straight-line basis over the term of the lease.

(p) Employee entitlements

Employee entitlements to long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the reporting date. The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense in profit or loss.

(q) Retirement benefit obligations

The company operates a defined contribution scheme for its employees. The assets of the scheme are held in separate trustee administered fund, which is funded from contributions from both the company and employees. Contributions are determined by the rules of the scheme. The company also contributes to the statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions to this scheme are determined by local statute. The Company's obligations to these schemes are charged to profit or loss as they fall due.

(r) Income tax expense

Income tax expense is the aggregate amount charged /(credited) in respect of current income tax and deferred income tax in determining the profit or loss for the year. Tax is recognised in the profit or loss except when it relates to items recognised in other comprehensive income, in which case it is also recognised in other comprehensive income, or to items recognised directly in equity, in which case it is also recognised directly in equity.

Current income tax

Current income tax is the amount of income tax payable on the taxable profit for the year, and any adjustment to tax payable in respect of prior years, determined in accordance with the Kenyan Income Tax Act.

Deferred income tax

Deferred income tax is provided in full on all temporary differences except those arising on the initial recognition of an asset or liability, other than a business combination, that at the time of the transaction affects neither the accounting nor taxable profit or loss. Deferred income tax is determined using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, using tax rates and laws enacted or substantively enacted at the balance sheet date and expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

Accounting policies (continued)

2. Significant accounting policies (continued)

Deferred income tax (continued)

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the company and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the company is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the company the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Recognised and unrecognised deferred tax assets are reassessed at the end of each reporting period and, if appropriate, the recognised amount is adjusted to reflect the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on the same entity.

(s) Dividend distribution

Dividend distributions to the Company's shareholders are recognised as a liability in the financial statements in the year in which the dividends are approved by the shareholders.

(t) Share capital

Ordinary shares are recognised at par value and classified as 'share capital' in equity. Any amounts received over and above the par value of the shares issued are classified as 'share premium' in equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Shares are classified as equity when there is no obligation to transfer cash or other assets.

(u) Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the company's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Critical judgments in applying the company's accounting policies

The key areas of judgment in applying the company's accounting policies are dealt with as follows:
The ultimate liability arising from claims made under insurance contracts

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

Accounting policies (continued)

2. Significant accounting policies (continued)

(i) Critical judgments in applying the company's accounting policies (continued)

The main assumption underlying techniques applied in the estimation of this liability is that the company's past claims experience can be used to project future claims development and hence, ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years.

Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims' inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved. A margin for adverse deviation may also be included in the liability valuation.

Held-to-maturity investments

The Company follows the guidance of IAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the company evaluates its intention and ability to hold such investments to maturity. If the company fails to hold these investments to maturity other than for the specific circumstances - for example, selling more than an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

(ii) Key sources of estimation uncertainty

Impairment losses

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Receivables

Critical estimates are made by the directors in determining the recoverable amount of receivables and valuation of investment property.

Valuation of investment properties

Estimates are made in determining valuations of investment properties. The management uses experts in determination of the values to adopt.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

1 Incorporation and registered office

APA Insurance Limited is incorporated in Kenya under the Companies Act and is domiciled in Kenya. The address of its registered office is Apollo Centre, 07 Ring Road, Parklands, P. O. Box 30065-00100, Nairobi

2 Risk management objectives and policies

The Company's activities expose it to a variety of risks, including insurance risk, financial risk and credit risk. These risks result in changes in property values, debt and equity market prices, foreign currency exchange rates and interest rates. The Company's overall risk management programme focuses on the identification and management of risks and seeks to minimise potential adverse effects on its financial performance, by use of underwriting guidelines and capacity limits, reinsurance planning, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and reinsurers. Investment policies are in place, which help manage liquidity, and seek to maximise return within an acceptable level of interest rate risk.

The disclosures below summarise the way the company manages key risks:

2.1 Insurance risk

The risk under any one insurance contract arises from the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits payable are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits payable will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability of the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical, local and type of industry covered.

Short-term insurance contracts

The company engages in short term insurance contracts and funds the insurance liabilities with a portfolio of equity and debt securities exposed to market risk. An analysis of the Company's financial assets and its short term insurance liabilities is presented as follows;

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

2 Risk management objectives and policies (continued)

2.1 Insurance risk (continued)

	2017 Shs'000	2016 Shs'000
Debt securities held to maturity:		
-Government bonds and treasury bills	2,870,428	2,818,373
-Commercial paper & corporate bonds	361,573	291,763
Debt securities available for sale:		
-Government bonds	4,156,858	3,341,598
Equity securities-listed securities	1,182,295	1,499,914
Mortgage loans (Note 17)	77,775	49,832
Other loans (Note 17)	53,231	57,047
Receivables arising out of direct insurance arrangements	1,100,096	1,637,471
Receivables arising out of reinsurance arrangements	569,111	700,117
Deposits with financial institutions maturing after 90 days	-	59,060
Cash and cash equivalents (Note 32(b))	1,146,962	1,182,559
Total	**11,518,329**	**11,637,734**
Short - term insurance liabilities:		
Insurance contract liabilities	6,654,070	6,821,504
Less: assets arising from reinsurance contracts (Note 27(b))	(1,125,225)	(1,028,507)
Payables arising from reinsurance arrangements	97,647	278,138
Total	**5,626,492**	**6,071,135**

Short-term insurance liabilities are not directly sensitive to the level of market interest rates, as they are un-discounted and contractually non-interest bearing. However, due to the time value of money and the impact of interest rates on the level of bodily injury incurred by the company's policyholders (where a reduction of interest rate would normally produce a higher insurance liability), the company matches the cash flows of assets and liabilities in this portfolio by estimating their mean duration.

The mean duration of liabilities is calculated using historical claims data to determine the expected settlement pattern for claims arising from the insurance contracts in force at the reporting date (both incurred claims and future claims arising from the unexpired risks at the reporting date).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

2 Risk management objectives and policies (continued)

Contractual cash flows (undiscounted)

31 December 2017	**Total Amount**	**No stated Maturity**	**0-1 year**	**1-5 years**	**> 5 years**
Financial assets:	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Debt securities held to maturity:					
- Government bonds and treasury bills-fixed rate	2,870,428	-	1,239,096	1,138,327	493,005
- Commercial paper and corporate bonds	361,573	-	-	361,573	-
Government bonds - available for sale	4,156,858	-	399,406	1,557,737	2,199,715
Quoted equity securities- available for sale	1,182,295	1,182,295	-	-	-
Mortgage loans	77,775	-	-	3,343	74,432
Other loans	53,231	-	7,342	45,889	-
Insurance and reinsurance receivables	1,669,207	-	1,217,087	452,120	-
Deposits with financial institutions maturing after 90 days	-		-	-	-
Cash and cash equivalents (Note 32(b))	1,146,962	-	1,146,962	-	-
Total	**11,518,329**	**1,182,295**	**4,009,893**	**3,558,989**	**2,767,152**
Short term insurance liabilities:					
Insurance contracts	6,654,070	-	3,598,690	2,566,013	489,367
Less assets arising from reinsurance contracts	(1,125,225)	-	(608,744)	(433,758)	(82,723)
Payables arising from reinsurance arrangements	97,647	-	97,647	-	-
Total	**5,626,492**	**-**	**3,087,593**	**2,132,255**	**406,644**
Difference in contractual cash flows	**5,891,837**	**1,182,295**	**922,300**	**1,421,761**	**2,360,508**
31 December 2016					
Financial assets:					
Debt securities held to maturity:					
- Government bonds and treasury bills-fixed rate	2,818,373	-	1350,756	973,238	494,379
- Commercial paper and corporate bonds	291,763	-	-	291,763	-
Government bonds - available for sale	3,341,598	-	196,881	1,483,731	1,660,986
Quoted equity securities- available for sale	1,499,914	1,499,914	-	-	-
Mortgage loans	49,832	-	-	4,404	45,428
Other loans	57,047	-	20,759	36,288	-
Insurance and reinsurance receivables	2,337,588	-	1,965,024	372,564	-
Deposits with financial institutions maturing after 90 days	59,060	-	51,443	-	7,617
Cash and cash equivalents (Note 32(b))	1,182,559	-	1,182,559	-	-
Total	**11,637,734**	**1,499,914**	**4,767,422**	**3,161,988**	**2,208,410**
Short term insurance liabilities:					
Insurance contracts	6,821,504	-	3,658,487	2,630,581	532,436
Less assets arising from reinsurance contracts	(1,028,507)	-	(494,345)	(444,245)	(89,917)
Payables arising from reinsurance arrangements	278,138	-	278,138	-	-
Total	**6,071,135**	**-**	**3,442,280**	**2,186,336**	**442,519**
Difference in contractual cash flows	**5,566,599**	**1,499,914**	**1,325,142**	**975,652**	**1,765,891**

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

2 Risk management objectives and policies (continued)

2.2 Financial risk factors

The company is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from insurance policies as they fall due. The most important components of this financial risk are market risk (including interest rate risk, equity price risk and currency risk), credit risk and liquidity risk. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the company primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance. It manages these positions with an Asset Liability Management (ALM) framework that has been developed to achieve investment returns in excess of obligations under insurance contracts. The company produces regular reports at portfolio and asset and liability class levels that are circulated to the company's key management personnel. The principal technique of the company's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders. The company's ALM is also integrated with the management of the financial risks associated with the company's other financial assets and liabilities not directly associated with insurance and investment liabilities (in particular, borrowings and investments in foreign operations). The company does not use hedge accounting. The company has not changed the processes used to manage its risks from previous periods. The notes below explain how financial risks are managed using the categories utilised in the company's ALM framework.

(a) Market risk

(i) Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities and deposits with financial institutions. The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. For financial instruments and insurance contracts described in this note, the sensitivity is solely associated with the former, as the carrying amounts of the latter are not directly affected by changes in market risks.

The company's management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios due to a parallel movement of plus 5 percentage points in all yield curves of financial assets and financial liabilities. These particular exposures illustrate the company's overall exposure to interest rate sensitivities included in the company's ALM framework and its impact on the company's profit or loss.
An increase/decrease of 5 percentage points in interest yields would result in additional profit/loss for the period of Shs 416 million (2016: Shs 391 million).

(ii) Price risk

The company is exposed to equity securities price risk as a result of its holdings in equity investments, classified as financial assets available for sale. Exposures to equity shares in aggregate are monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes. Investments held are listed and traded on the Nairobi Securities Exchange.

Investment management meetings are held monthly. At these meetings, senior investment managers meet to discuss investment return and concentration of the equity investments. Listed equity securities represent 65% (2016:71%) of total equity investments. If equity market indices had increased/decreased by 5%, with all other variables held constant, and all the company's equity investments moving according to the historical correlation with the index, equity would have increased/ decreased by Shs 59 million (2016: Shs 75 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

2 Risk management objectives and policies (continued)

2.2 Financial risk (continued)

(iii) Foreign exchange risk

Foreign currency exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the company's functional currency. Currently, management believes that there is minimal risk of significant losses due to exchange rate fluctuations.

(b) Credit risk

The company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the company is exposed to credit risk are:

- reinsurers' share of insurance liabilities and reserves;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries;
- amounts due from corporate bond issuers;
- cash and deposits held with banks and
- rental receivables

The company manages the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or Companys of counterparties and to geographical and industry segments. Such risks are subject to regular reviews. Reinsurance is used to manage insurance risk. This does not, however, discharge the company's liability as primary insurer. If a reinsurer fails to pay a claim, the company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on annual basis by reviewing their financial strength prior to finalisation of annual contracts.

In addition, management assesses the credit worthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy. The exposure to individual counterparties is also managed through other mechanisms such as the right of offset where counterparties are both debtors and creditors of the company. Management information reported to the directors include details of provisions for impairment on receivables and subsequent write offs. Exposures to individual policyholders and Company's of policyholders are collected within the on-going monitoring of the controls associated with regulatory solvency. Where there exists significant exposure to individual policyholders, or homogenous Company's of policyholders, a financial analysis is carried out by the management.

The amount that best represents the Company's maximum exposure to credit risk as at 31 December 2017 is made up as follows:

	Fully performing	Past due but not impaired	Impaired	Total
	Shs'000	Shs'000	Shs'000	Shs'000
Government securities	7,027,286	-	-	7,027,286
Mortgage loans	77,775	-	-	77,775
Other loans receivable	53,231	-	-	53,231
Insurance and reinsurance receivables	1,217,087	452,120	1,174,750	2,843,957
Provision for impairment	-	-	(1,174,750)	(1,174,750)
Other Receivables	64,979	-	-	64,979
Deposits with financial institutions maturing after 90 days	-	-	-	-
Cash and cash equivalents	1,146,962	-	-	1,146,962
Commercial papers and corporate bonds	361,573	-	-	361,573
Total	9,948,893	452,120	-	10,401,013

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

2 Risk management objectives and policies (continued)

2.2 Financial risk (continued)

(b) Credit risk (continued)

The amount that best represented the company's maximum exposure to credit risk as at 31 December 2016 was as follows:

	Fully performing	Past due but not impaired	Impaired	Total
	Shs'000	Shs'000	Shs'000	Shs'000
Government securities	6,159,971	-	-	6,159,971
Mortgage loans	49,832	-	-	49,832
Other loans receivable	57,047	-	-	57,047
Insurance and reinsurance receivables	1,451,792	885,796	867,450	3,205,038
Provision for impairment	-	-	(867,450)	(867,450)
Other Receivables	100,118	-	-	100,118
Deposits with financial institutions maturing after 90 days	59,060	-	-	59,060
Cash and cash equivalents	1,182,559	-	-	1,182,559
Commercial papers and corporate bonds	291,763	-	-	291,763
Total	9,352,142	885,796	-	10,237,938

The customers under the fully performing category of receivables under insurance and reinsurance contracts are paying their debts as they continue trading with the company. Receivables in the impaired category are fully provided for and they continue being pursued for settlement.

(c) Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The primary liquidity risk of the company is the obligation to pay claims to policyholders as they fall due. The projected settlement of these liabilities is modelled, on a regular basis, using actuarial techniques. The board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover anticipated liabilities and unexpected levels of demand.

The table below provides a contractual maturity analysis of the company's financial liabilities:

At 31 December 2017	6 months or on demand	Between 6 months and 1 year	More than 1 year	Total
	Shs'000	Shs'000	Shs'000	Shs'000
Insurance contract liabilities	2,022,500	1,546,189	3,085,381	6,654,070
Payables arising from reinsurance arrangements	97,647	-	-	97,647
Bank overdraft	11,087	-	-	11,087
Other payables	421,111	-	-	421,111
Total	2,552,345	1,546,189	3,085,381	7,183,915
At 31 December 2016				
Insurance contract liabilities	2,073,392	1,585,095	3,163,017	6,821,504
Payables arising from reinsurance arrangements	278,138	-	-	278,138
Bank overdraft	177,025	-	-	177,025
Other payables	348,899	-	-	348,899
Total	2,877,454	1,585,095	3,163,017	7,625,566

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

Risk management objectives and policies (continued)

2.2 Financial risk (continued)

(d) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

• Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
• Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
• Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the company's financial assets and liabilities measured at fair value at 31 December 2017 and 31 December 2016

	Level 1	Level 2	Level 3	Total
At 31 December 2017	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Available for sale				
- Government securities	4,156,858	-	-	4,156,858
- Quoted equity investments – available for sale	1,182,295	-	-	1,182,295
- Investment in unquoted equity	-	14,707	-	14,707
Total	5,339,153	14,707	-	5,353,860
At 31 December 2016				
Available for sale				
- Government securities	3,341,598	-	-	3,341,598
- Quoted equity investments – available for sale	1,499,914	-	-	1,499,914
- Investment in unquoted equity	-	14,707	-	14,707
Total	4,841,512	14,707	-	4,856,219

There were no transfers between levels 1 and 2 during the year.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Company, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the company is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily Nairobi Securities Exchange ("NSE") equity investments and government bonds classified as available for sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

Risk management objectives and policies (continued)

2.2 Financial risk (continued)

(d) Fair value hierarchy

Specific valuation techniques used to value financial instruments include

• Quoted market prices or dealer quotes for similar instruments

Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

There was no movement in level 3 during the year.
The table below sets out the Company's classification of each class of financial assets and liabilities, and their fair values:

As at 31 December 2017	Held to maturity Shs'000	Loans and receivables Shs'000	Available-for-sale Shs'000	Other amortised cost Shs'000	Total carrying amount Shs'000	Fair values Shs'000
Assets						
Quoted equity securities	-	-	1,182,295	-	1,182,295	**1,182,295**
Investments in Unquoted equity	-	-	14,707	-	14,707	**14,707**
Investment in unit trusts	-	-	25,516	-	25,516	**25,516**
Investments in Government securities-HTM	3,175,472	-	-	-	3,175,472	**3,175,472**
Investments in Government securities-AFS	-	-	4,156,858	-	4,156,858	**4,156,858**
Loans	-	131,006	-	-	131,006	**131,006**
Insurance and reinsurance receivables	-	1,669,207	-		1,669,207	**1,669,207**
Reinsurer's share of insurance liabilities and reserves	-	2,102,040	-	-	2,102,040	**2,102,040**
Other receivables	-	64,979	-	-	64,979	**64,979**
Deposits with financial institutions	-	633,241	-	-	633,241	**633,241**
Cash and bank balances	-	219,764	-	-	219,764	**219,764**
	3,175,472	**4,820,237**	**5,379,376**	**-**	13,375,085	**13,375,085**
Liabilities						
Insurance contract liabilities	6,654,070	-	-	-	6,654,070	**6,654,070**
Payables from reinsurance arrangements	-	97,647	-	-	97,647	**97,647**
Other payables		421,111			421,111	**421,111**
Bank overdraft	11,087	-	-	-	11,087	**11,087**
	6,665,157	**518,758**	**-**	**-**	7,183,915	**7,183,915**

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

Risk management objectives and policies (continued)

2.2 Financial risk (continued)

(d) Fair value hierarchy

As at 31 December 2016	Held to maturity Shs'000	Loans and receiv-ables Shs'000	Available-for-sale Shs'000	Other amortised cost Shs'000	Total carrying amount Shs'000	Fair values Shs'000
Assets						
Quoted equity securities	-	-	1,499,914	-	1,499,914	**1,499,914**
Investments in Unquoted equity	-	-	14,707	-	14,707	**14,707**
Investments in Government securities- HTM	3,206,546	-	-	-	3,206,546	**3,206,546**
Investments in Government securities- AFS	-	-	3,341,598	-	3,341,598	**3,341,598**
Loans	-	106,879	-	-	106,879	**106,879**
Insurance and reinsurance receivables	-	2,337,588	-	-	2,337,588	**2,337,588**
Reinsurer's share of insur-ance liabilities and reserves	-	2,006,261	-	-	2,006,261	**2,006,261**
Other receivables	-	100,118	-	-	100,118	**100,118**
Deposits with financial institutions	990,747	-	-	-	990,747	**990,747**
Cash and bank balances	39,724	-	-	-	39,724	**39,724**
	4,237,017	**4,550,846**	**4,856,219**	**-**	13,644,082	**13,644,082**
Liabilities						
Insurance contract liabilities	6,821,504	-	-	-	6,821,504	**6,821,504**
Payables from reinsurance arrangements	-	278,138	-	-	278,138	**278,138**
Other payables	-	348,899	-	-	348,899	**348,899**
Bank overdraft	177,025	-	-	-	177,025	**177,025**
	6,998,529	**627,037**	**-**	**-**	7,625,566	**7,625,566**

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

2 Risk management objectives and policies (continued)

2.3 Capital management

The Company maintains an efficient capital structure consistent with the Company's risk profile and the regulatory and market requirements of its business.

The company's objectives in managing its capital are:

- to match the profile of its assets and liabilities taking account of the risks inherent in the business;
- to maintain financial strength to support business growth;
- to satisfy the requirements of its policyholders, regulators and rating agencies;
- to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets
- to allocate capital efficiently to support growth
- to safeguard the company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

An important aspect of the Company's overall capital management process is the setting of a target risk-adjusted rate of return which is aligned to performance objectives and ensures that the Company is focused on the creation of value for shareholders.

The Company has a number of sources of capital available to it and seeks to optimise its equity/debt structure in order to ensure that it can consistently maximise returns to shareholders. The Company considers not only the traditional sources of capital funding but the alternative sources of capital including reinsurance, as appropriate, when assessing its deployment and usage of capital. The Company manages as capital, all items that are eligible to be treated as such for regulatory purposes.

The Company is regulated by the Insurance Regulatory Authority in Kenya. The new capital requirements Risk Based Capital) were introduced in the Finance Act, 2015. Insurance companies are required to hold paid up capital by the 30th June 2018; the higher of:

i) Shs 600 million; or
ii) risk based capital determined by the Insurance Regulatory Authority (IRA) from time to time; or
iii) 20% of previous year's net earned premium.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

Risk management objectives and policies (continued)

2.3 Capital management (continued)

The Company's Capital adequacy ratio position as at 31 December 2017 and 2016 is illustrated below.

	2017 Shs'000	2016 Shs'000
Available Capital	5,389,479	4,612,007
Required Capital	2,163,712	2,420,875
Capital Adequacy ratio	249%	191%
Required Capital Adequacy ratio	180%	150%

The make-up of capital managed by the Company is as shown below:

	2017 Shs'000	2016 Shs'000
Share capital	1,250,000	1,250,000
Investment revaluation reserve	505,857	222,886
Translation reserve	(31,070)	(27,910)
Retained earnings	4,277,803	3,818,039
Total attributable to equity holders	**6,002,590**	**5,263,015**

3 Gross earned premium

The Company underwrites general insurance business only. This has been analysed into several sub-classes of business based on the nature of the assumed risks as shown below:

	2017 Shs'000	2016 Shs'000
Engineering	200,087	182,058
Fire	739,867	782,811
Liability	124,926	151,448
Marine and transit	177,029	212,619
Motor	2,694,381	3,799,070
Personal accident (including medical)	3,465,260	3,317,582
Theft	181,788	168,508
Workmen's compensation	611,871	667,237
Other	458,056	478,844
Total	8,653,265	9,760,177

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

4 Investment income

	2017 Shs'000	2016 Shs'000
Interest from government securities	693,688	548,730
Bank deposit interest	100,404	194,683
Loan interest receivable	5,424	5,468
Rental income from investment properties	51,544	60,177
Dividends receivable from equity investments	71,833	124,474
Realised gain/ (loss) from trading in available for sale financial assets	50,113	102,774
Fair value gain on investment properties (Note 14)	88,000	65,000
Total	1,061,006	1,101,306

5 Other income

	2017 Shs'000	2016 Shs'000
Miscellaneous income	1,202	8,645
Gains on disposal of property and equipment	351	3,531
Total	1,553	12,176

6 Net incurred claims

	2017 Shs'000	2016 Shs'000
Engineering	53,230	59,376
Fire	172,786	97,041
Liability	(46,829)	27,426
Marine and transit	59,729	6,537
Motor	1,658,032	2,878,927
Personal accident and Medical	1,657,639	1,465,010
Theft	139,788	83,016
Workmen's compensation	454,100	576,472
Other	(51,165)	50,317
Total	4,097,310	5,244,122

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

7 Operating and other expenses

	2017 Shs'000	2016 Shs'000
Employee benefits (Note 8)	715,594	597,411
Auditors' remuneration	5,591	5,213
Directors emoluments – fees	5,309	6,658
- other	58,198	63,049
Depreciation (Note 12)	31,220	32,942
Amortisation (Note 13)	23,969	19,685
Impairment charge for doubtful receivables	307,300	165,544
Operating lease rentals – land and buildings	109,031	99,673
Repairs and maintenance expenditure	14,228	12,392
Premium and reinsurance levies	77,339	90,511
Policyholders compensation fund contributions	20,165	22,627
Printing and stationery	27,622	25,752
Telecommunications expenses	22,263	21,647
Travelling expenses	22,802	24,485
Advertisement and promotion costs	115,505	163,988
Marketing expenses	173,619	253,739
Other	98,636	110,036
Total	1,828,391	1,715,352

8 Employee benefits

	2017 Shs'000	2016 Shs'000
The following are included in employee benefits expense:		
- salaries and wages	627,053	514,800
- group life premium	7,762	10,088
- medical expenses	41,740	38,254
- other retirement benefit costs	38,156	33,420
- social security benefit costs	883	849
Total	715,594	597,411

9 Income tax expense

(a) Tax charge	2017 Shs'000	2016 Shs'000
Current income tax	212,073	200,606
Deferred income tax credit (Note 30)	(79,579)	(41,702)
Income tax expense	132,494	158,904

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

(b) Reconciliation of expected tax based on accounting profit to taxation expense	2017 Shs'000	2016 Shs'000
Profit before income tax	792,258	808,482
Tax calculated at tax rate of 30% (2016: 30%)	237,677	242,545
Tax effect of income not subject to tax	(158,743)	(208,725)
Tax effect of expenses not tax deductible	57,960	128,334
Deferred tax on fair value gains on investment properties at CGT rate	(4,400)	(3,250)
Tax charge	132,494	158,904

(c) Current income tax		
At 1 January	(20,458)	13,176
Current tax charge for the year (Note 9(a))	212,073	200,606
Paid in the year	(199,344)	(234,240)
At 31 December	(7,729)	(20,458)
Analysed as follows:		
Tax recoverable	7,729	20,458
Tax payable	-	-
Net tax (receivable) /payable	(7,729)	(20,458)

10 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year,

	2017 Shs'000	2016 Shs'000
Profit for the year (Shs'000)	659,764	649,578
Weighted average number of ordinary shares in issue (thousands)	12,500	12,500
Earnings per share (Shs) - basic and diluted	**52.78**	**51.97**

11 Dividends

At the annual general meeting to be held in April 2018, a first and final dividend in respect of the year ended 31 December 2017 of Shs 120 (2016: Shs 16) per share amounting to a total of Shs 1,500,000,000 (2016:Shs 200,000,000) is to be proposed. No interim dividend was paid during the year.

Payment of dividends is subject to withholding tax at the rate of 5% or 10%, depending on the residence of the individual shareholders.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

12 Motor vehicles and equipment

	Motor vehicles Shs' 000	Fittings and equipment Shs' 000	Total Shs' 000
Year 2016			
Cost			
At 1 January 2016	15,158	227,810	242,968
Additions	11,300	31,534	42,834
Disposal	(7,350)	-	(7,351)
At 31 December 2016	**19,108**	**259,344**	**278,452**
Depreciation			
At 1 January 2016	9,773	137,959	147,732
Charge for the year	4,160	28,782	32,942
Eliminated on disposal	(7,349)	(71)	(7,420)
At 31 December 2016	**6,584**	**166,670**	**173,254**
Net book value			
At 31 December 2016	**12,524**	**92,674**	**105,198**
Year 2017			
Cost	19,108	259,344	278,452
Additions	3,800	21,767	25,567
Disposal	(2,750)	(77)	(2,827)
At 31 December 2017	**20,158**	**281,034**	**301,192**
Depreciation			
At 1 January 2017	6,584	166,670	173,254
Charge for the year	4,388	26,832	31,220
Eliminated on disposal	(1,718)	(30)	(1,748)
At 31 December 2017	**9,254**	**193,472**	**202,726**
Net book value			
At 31 December 2017	**10,904**	**87,562**	**98,466**

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

13 Intangible assets – computer software

	2017 Shs'000	2016 Shs'000
Cost		
At 1 January	119,625	127,618
Additions	60,617	-
Reclassified to other receivables	-	(7,993)
At 31 December	180,242	119,625
Amortisation		
At 1 January	83,778	64,093
Charge for the year	23,969	19,685
At 31 December	107,747	83,778
Net book value:		
At 31 December	72,495	35,847

14 Investment properties

	2017 Shs'000	2016 Shs'000
At 1 January	1,225,000	1,160,000
Fair value gain (Note 4)	88,000	65,000
At 31 December	1,313,000	1,225,000

Investment properties were last revalued on 31 December 2017, by Axis Real Estate Limited, independent valuers, on the basis of open market value for existing use.

The table below analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2). Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

	Level 1	Level 2	Level 3	Total
At 31 December 2017	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Investment property	-	1,313,000	-	1,313,000
At 31 December 2016				
Investment property	-	1,225,000	-	1,225,000

Valuation technique used to derive level 2 fair values

Level 2 fair value of land and building has been derived using the sales comparison approach. Sales prices of comparable land and buildings in close proximity are adjusted for differences in key attributes such as property size.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

15 Equity investments

(a) Investment in associates	2017 Shs'000	2016 Shs'000
At I January	597,913	573,974
Share of after tax profit	26,066	41,032
Share of investment revaluation reserve, net of tax	(2,144)	(14,306)
Translation adjustment	(3,160)	(2,787)
At 31 December	618,675	597,913

This comprises 1,907,400 (2016: 1,907,400) ordinary shares of Tanzania Shillings 1,000 each representing 34% shareholding in Reliance Insurance Company (Tanzania) Limited, an insurance company incorporated in Tanzania and 200,000 ordinary shares of Kenya Shillings 20 each representing 40% shareholding in Gordo n Court Limited, a property development company incorporated in Kenya. Both associates have 31 December as their reporting date.

Summarised financial information in respect of the company's share of results and net assets in the associates is set out below:

	2017 Sh'000	2016 Sh'000
Total assets:		
Reliance Insurance Company (Tanzania) Limited	2,221,307	1,929,912
Gordon Court Limited	1,019,708	1,013,531
Total liabilities:		
Reliance Insurance Company (Tanzania) Limited	1,546,850	1,285,532
Gordon Court Limited	46,307	66,472
Net assets:		
Reliance Insurance Company (Tanzania) Limited	674,455	644,380
Gordon Court Limited	973,401	947,060
Company's share of net assets of associate:		
Reliance Insurance Company (Tanzania) Limited	229,315	219,089
Gordon Court Limited	389,360	378,824
Total revenue:		
Reliance Insurance Company (Tanzania) Limited	878,067	1,194,005
Gordon Court Limited	135,675	128,523
Profit for the year:		
Reliance Insurance Company (Tanzania) Limited	45,674	88,056
Gordon Court Limited	26,343	27,735
Company's share of profit for the year:		
Reliance Insurance Company (Tanzania) Limited	15,529	29,938
Gordon Court Limited	10,537	11,094

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

15 Equity investments (continued)

(b) Investment in unquoted shares	2017 Shs 000	2016 Shs 000
At 1 January	14,707	52,027
Disposals	-	-
Fair value loss	-	(22,499)
Transfer to quoted shares - Note 16	-	(14,821)
31 December	14,707	14,707

16 Available for sale quoted equity investments

	2017 Shs'000	2016 Shs'000
At 1 January	1,499,914	2,090,961
Additions	76,933	56,391
Transfer from unquoted investments (Note 15(b))	-	14,821
Disposals	(564,115)	(354,423)
Fair value gain /(loss) through other comprehensive income	169,563	(307,836)
At 31 December	1,182,295	1,499,914

17 Loans receivable

Mortgage loans	2017 Shs'000	2016 Shs'000
At 1 January	49,832	27,578
Loans advanced	30,583	26,997
Repayments received	(2,640)	(4,743)
At 31 December	77,775	49,832
Other loans		
At 1 January	57,047	67,024
Loans advanced	25,765	26,221
Repayments received	(29,581)	(36,198)
At 31 December	53,231	57,047
Total	131,006	106,879

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

17 Loans receivable (continued)

	2017 Shs'000	2016 Shs'000
Summary		
At 1 January	106,879	94,602
Loans advanced	56,348	53,218
Loan repayments	(32,221)	(40,941)
At 31 December	131,006	106,879
Maturity profile of mortgage loans		
Within 1 year	-	-
In 1 to 5 years	3,343	4,404
In over 5 years	74,432	45,428
Total	77,775	49,832
Maturity profile of other loans		
Loans maturing:		
Within 1 year	7,342	20,759
In 1 to 5 years	45,889	36,288
Over 5 years	-	-
Total	53,231	57,047
Book amount of:		
- Mortgage loans	77,775	49,832
- Other loans	53,231	57,047
Total loans receivable at 31 December	131,006	106,879
Lending commitments		
Mortgage loans approved by the directors but not disbursed at 31 December	4,070	20,369

There is no undue concentration of credit risk with respect to mortgage and other loans. Weighted average effective interest rates are disclosed under note 31.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

18 Reinsurers' share of insurance liabilities and reserves

	2017 Shs'000	2016 Shs'000
Reinsurers' share of:		
- provision for unearned premiums (Note 28)	976,815	977,754
- notified claims outstanding (Note 27 (b))	946,839	866,678
- claims incurred but not reported (Note 27(b))	178,386	161,829
Total	2,102,040	2,006,261

Amounts due from reinsurers in respect of claims already paid by the company on contracts that are reinsured are included in receivables arising out of reinsurance arrangements in the statement of financial position. Movements in the above reinsurance assets are shown in notes 27 and 28.

19 Deferred acquisition costs

	2017 Shs'000	2016 Shs'000
At 1 January	198,074	247,733
Additions	139,203	198,074
Amortisation for the year	(198,074)	(247,733)
At 31 December	139,203	198,074

20 Other receivables

	2017 Shs'000	2016 Shs'000
Due from related companies (Note 35(iii))	2,828	1,360
Staff advances	28,736	7,671
Sundry deposits and prepayments	22,966	70,491
Rental receivables	8,328	14,373
Other receivables	2,121	6,223
Total	64,979	100,118

The carrying value of the above receivables approximates their fair values.

21 Government securities

(a) Held to maturity

	2017 Shs'000	2016 Shs'000
Treasury bills and bonds at amortised cost maturing:		
Within 90 days	305,044	388,173
After 90 days but within a year	1,239,096	1,350,756
In 1 to 5 years	1,138,328	973,238
Over 5 years	493,004	494,379
Total	3,175,472	3,206,546

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

21 Government securities (continued)

	2017 Shs'000	2016 Shs'000
(b) Available for sale		
Government treasury and infrastructure bonds:		
At 1 January	3,341,598	2,215,518
Additions	1,052,133	2,345,000
Maturities during the year	(141,358)	(465,042)
Disposals	(210,547)	(830,000)
Fair value gain through other comprehensive income	115,032	76,122
At 31 December	4,156,858	3,341,598

These bonds are carried at fair values based on the Nairobi Securities Exchange prices as at 31 December. Weighted average effective interest rates are disclosed under note 31.

The treasury bonds include bonds under lien as required by Insurance Act with a carrying value of Shs 742 million (2016: Shs 742 million).

22 Deposits with financial institutions

	2017 Shs'000	2016 Shs'000
Deposits maturing:		
Within 90 days	633,241	931,687
After 90 days but within a year	87,750	156,560
Less provision for impairment	(87,750)	(97,500)
Total	633,241	990,747

The deposit with financial institutions includes Shs 87.75 Million (2016: Shs 97.5 Million) deposit with Imperial Bank Limited (in receivership). The directors have made full impairment provision for this deposit.

Weighted average effective interest rates are disclosed under note 31.

23 Commercial paper and corporate bonds

	2017 Shs'000	2016 Shs'000
At 1 January	291,763	300,001
Additions	70,900	-
Maturities during the year	(1,090)	(8,238
At 31 December	361,573	291,763

Weighted average effective interest rates are disclosed under note 31.

24 Share capital

	Number of shares	Share Capital Shs'000
Balance as at 1 January 2016, 31 December 2016 and 31 December 2017	12,500,000	1,250,000

The total authorised number of ordinary shares is 12,500,000 with a par value of Shs 100 per share. All issued shares are fully paid.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

25 Reserves

(a) Available for sale (AFS) reserve

The Available for sale (AFS) reserve represents net surpluses /(deficits) that arise on the revaluation of available-for-sale financial assets. This reserve is non-distributable. Where a revalued financial asset is sold, the portion of the reserve that relates to that financial asset, and is effectively realised, is recognised in profit and loss.

Where a revalued financial asset is impaired, the portion of the reserve that relates to that financial asset is recognised in profit and loss.

The movement in this reserve is shown in the statement of changes in equity.

(b) Translation reserve

The translation reserve relates to translation gains and losses arising from translating the financial statements of the foreign operation in Tanzania.

The movement in this reserve is shown in the statement of changes in equity.

26 Retained earnings

The retained earnings balance represents the amount available for distribution to the shareholders of the company, with the exception of cumulative fair value gains on the company's investment properties amounting to Shs 715,825,000 (2016: Shs 627,825,000) whose distribution is subject to restrictions imposed by legislation.

27 (a) Insurance contract liabilities

	2017	2016
	Shs'000	Shs'000
Short term non – life insurance contracts		
- claims reported and claims handling expenses	5,430,823	5,599,264
- provision for claims incurred but not reported	1,223,247	1,222,240
Total	6,654,070	6,821,504

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

27 (b) Movements in insurance contract liabilities and reinsurance assets

	2017 Gross	2017 Re-insurance	2017 Net	2016 Gross	2016 Re-insurance	2016 Net
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
At 1 January:						
Notified claims	5,599,264	866,678	4,732,586	4,959,342	788,165	4,171,177
Incurred but not reported	1,222,240	161,829	1,060,411	944,820	231,348	713,472
Total at 1 January	6,821,504	1,028,507	5,792,997	5,904,162	1,019,513	4,884,649
Cash paid for claims settled in year	6,377,523	2,016,061	4,361,462	5,974,180	1,638,827	4,335,353
Increase in liabilities:						
-arising from current year claims	2,511,512	636,384	1,875,128	2,705,070	523,701	2,181,369
-arising from prior year claims	3,698,577	1,475,973	2,222,604	3,983,619	1,212,933	2,770,686
Total increase in liabilities	6,210,089	2,112,357	4,097,732	6,688,689	1,736,634	4,952,055
Change in outstanding claims	(167,434)	96,718	(264,152)	917,342	8,994	908,348
Total at 31 December	6,654,070	1,125,225	5,528,845	6,821,504	1,028,507	5,792,997
Notified claims	5,430,823	946,839	4,483,984	5,599,264	866,678	4,732,586
Incurred but not reported	1,223,247	178,386	1,044,861	1,222,240	161,829	1,060,411
Total at 31 December	6,654,070	1,125,225	5,528,845	6,821,504	1,028,507	5,792,997

28 Provision for unearned premium and unexpired risk reserve

The provision for unearned premium represents the liability for short term business contracts where the company's obligations have not expired at the year end.

Movements in the reserves are shown below:

	Gross Shs'000	Re-insurance Shs'000	2017 Shs'000	Gross Shs'000	Re-insurance Shs'000	2016 Shs'000
At 1 January	3,445,393	977,754	2,467,639	4,209,596	1,005,455	3,204,141
(Decrease)	(350,189)	(939)	(349,250)	(764,203)	(27,701)	(736,502)
At 31 December	3,095,204	976,815	2,118,389	3,445,393	977,754	2,467,639

The company uses 1/365th method of calculating the unearned premium reserve. The 2017 reserve includes a net provision for unexpired risk reserve of Shs 50,809,000 (2016: Shs Nil)

29 Other payables

	2017 Shs'000	2016 Shs'000
Due to related companies	4,287	-
Accrued expenses	92,582	82,369
Rental deposits	23,948	17,849
Other liabilities	300,294	248,681
Total	421,111	348,899

The carrying value of the above payables approximate their fair values

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

30 Deferred income tax

Deferred income tax is calculated using the enacted capital gains tax rate of 5% for investments property and available for sale cumulative reserves and 30% for the assets (2016: 30%). Deferred tax assets and liabilities, and the deferred tax charge / (credit) in the statement of profit or loss (P/L) and in other comprehensive income (OCI) are attributable to the following items:

	2017 Shs'000	2016 Shs'000
At 1 January	(215,639)	(173,081)
Credit to profit or loss (Note 9(a))	(79,579)	(41,702)
Credit to other comprehensive income	(265)	(856)
At 31 December	(295,483)	215,639)

Deferred income tax assets and liabilities, and the deferred income tax charge / (credit) in the statement of profit or loss (P/L) and in other comprehensive income (OCI) are attributable to the following items:

Year ended 31st December 2017	At 1 Jan 2017	(Credited)/ charged to P/L	(Credited)/ Charged to OCI	At 31 Dec 2017
	Shs'000	Shs'000	Shs'000	Shs'000
Deferred income tax asset				
Property and equipment on historical cost basis	6,098	(4,693)	-	1,405
Provision for doubtful debts	(235,788)	(82,961)	-	(318,749)
Impairment provision for fixed deposit	(30,000)	3,675	-	(26,325)
Total asset	(259,690)	(83,979)	-	(343,669)
Deferred income tax liability				
Available for sale investments	126	-	(265)	(139)
Investment property	43,925	4,400	-	48,325
Total liability	44,051	4,400	(265)	48,186
Net deferred tax asset	**(215,639)**	**(79,579)**	**(265)**	**(295,483)**

Year ended 31st December 2016	At 1 Jan 2016 Shs'000	(Credited)/ charged to P/L Shs'000	(Credited)/ Charged to OCI Shs'000	At 31 Dec 2016 Shs'000
Deferred income tax asset				
Property and equipment on historical cost basis	1,387	4,711	-	6,098
Provision for doubtful debts	(186,125)	(49,663)	-	(235,788)
Impairment provision for fixed deposit	(30,000)	-	-	(30,000)
Total asset	(214,738)	(44,952)	-	(259,690)
Deferred income tax liability				
Available for sale investments	982	-	(856)	126
Investment property	40,675	3,250	-	43,925
Total liability	41,657	3,250	(856)	44,051
Net deferred tax asset	**(173,081)**	**(41,702)**	**(856)**	**(215,639)**

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

31 Weighted average effective interest rates

The following table summarises the weighted average effective interest rate at 31 December on the principal interest-bearing investments:

	2017 %	2016 %
Mortgage loans	10	10
Government securities	12	12
Deposits with financial institutions	10	9
Commercial bonds	13	13
Other loans	10	10

32 Notes to the statement of cash flows

(a) Cash generated from operations	**2017 Shs'000**	**2016 Shs'000**
Reconciliation of profit before tax to cash generated from operations;		
Profit before income tax	792,258	808,482
Adjustments for:		
Interest income	(799,516)	(748,881)
Depreciation (Note 12)	31,220	32,942
Amortisation of intangible assets (Note 13)	23,969	19,685
Gain on disposal of property and equipment (Note 5)	(351)	(3,531)
Gain on sale of available for sale financial assets (Note 4)	(50,113)	(102,774)
Gain in fair value of investment property (Note 14)	(88,000)	(65,000)
Share of profits from associates (Note 15(a))	(26,066)	(41,032)
(Loss) before working capital changes	(116,599)	(100,109)
Changes in working capital:		
- technical provisions	(613,402)	171,847
- trade and other payables	(108,280)	42,366
- trade and other receivables	762,127	(84,211)
Cash generated from operations	(76,154)	29,893

(b) For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:		
Cash and bank balances	219,764	39,724
Deposits with financial institutions maturing within 90 days (Note 22)	633,241	931,687
Treasury bills and bonds maturing within 3 months (Note 21(a))	305,044	388,173
Bank overdraft	(11,087)	(177,025)
Total	1,146,962	1,182,559

(c) Bank overdraft

The bank overdraft balance represents a book overdraft.

33 Contingent liabilities

In common with the insurance industry in general, the Company is subject to litigation arising in the normal course of insurance business. The directors are of the opinion that the outstanding litigation in this respect will not have a material effect on the financial position or profits of the company.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

33 Contingent liabilities (continued)

The Company is aware that Kenya Revenue Authority (KRA) has made claims on the players in insurance industry in respect of certain taxes, which have been subject of intense negotiations between all the stakeholders. Based on the available information including expert opinions received and ongoing stakeholder discussions, the directors are of the opinion that there still exists uncertainty as regards some of the taxes and accordingly no provision has been made for these taxes until the matter is clarified or fully concluded.

The Company has issued financial guarantees against counter indemnities from third parties for an aggregate outstanding exposure of Shs. 60,000,000 as at 31 December 2017 (2016: Shs. 45,000,000). No loss is expected to arise on these guarantees.

34 Commitments

Capital commitments

Capital commitments at the end of the year for which no provision has been made in these financial statements are as follows:

	2017 Shs'000	2016 Shs'000
Authorised and contracted for	11,600	36,049
Authorised but not contracted for	94,800	162,770
Total	106,400	198,819

Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:	2017 Shs 000	2016 Shs 000
Not later than 1 year	100,251	86,023
Later than 1 year and not later than 5 years	326,673	213,486
Later than 5 years	11,279	2,958

35 Related parties

The company is controlled by Apollo Investments Limited, a company incorporated in Kenya which owns 100% of the company's shares.

In the normal course of business, insurance policies are sold to related parties. Transaction with related parties during the year and related outstanding balances are disclosed below:

	2017 Shs'000	2016 Shs'000
(i) Insurance business transacted with related parties		
Gross written premium:		
- Parent company	2,568	861
- Other related parties	1,315	3,852
Total	3,883	4,713
(ii) Mortgage loans advanced to staff	77,775	49,832

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NOTES TO THE FINANCIAL STATEMENTS (continued)
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35 Related parties (continued)

(iii) Outstanding balances with related parties	2017 Shs'000	2016 Shs'000
(a) Due from related parties		
APA Life Assurance Limited	2,614	1,306
Reliance Insurance Company (Tanzania) Limited	214	-
Gordon Court Limited	-	75
Apollo Asset Management Company Limited	-	124
APA Insurance (Uganda) Limited	-	(145)
Total (Note 20)	2,828	1,360
(b) Due to related parties		
Apollo Asset Management Company Limited	2,292	-
APA Insurance (Uganda) Limited	1,995	-
Total (Note 29)	4,287	-

(iv) Directors' and key management remuneration		
Directors' fees	5,309	6,658
Directors' other remuneration	58,198	63,049
Remuneration to key management personnel (included in staff costs (Note 8))	160,807	131,396
Total	224,314	201,103

SUPPLEMENTARY INFORMATION

UNDERWRITING REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2017

Class of Insurance Business	Aviation Shs'000	Engineering Shs'000	Fire Domestic Shs'000	Fire Industrial Shs'000	Liability Shs'000	Marine & Transit Shs'000	Motor Private Shs'000	Motor Commercial Shs'000	Medical Shs'000	Personal Accident Shs'000	Theft Shs'000	Workmen's Compen-Sation Shs'000	Miscellaneous Shs'000	Total 2017 Shs'000	Total 2016 Shs'000
Gross premium written	38,028	179,730	74,877	735,197	156,017	225,266	1,091,038	1,165,930	3,389,017	203,606	193,489	600,335	250,546	8,303,076	8,995,974
Change in gross UPR	(28,910)	(20,356)	(3,078)	73,285	31,091	48,237	(173,117)	(264,297)	67,010	60,353	11,702	(11,536)	(140,573)	(350,189)	(764,503)
Gross earned premium	66,938	200,087	77,955	661,912	124,925	56,619	1,264,155	1,430,226	3,322,007	143,253	181,788	611,871	391,119	8,653,265	9,760,177
Less: reinsurance payable	(67,028)	(141,303)	(24,421)	(528,768)	(71,472)	(66,181)	(18,760)	(26,748)	(1,344,421)	(21,633)	(19,884)	(19,616)	(214,785)	(2,565,020)	(2,508,709)
Net earned premium	(90)	58,784	53,534	133,144	53,453	110,848	1,245,395	1,403,478	1,977,586	121,620	161,904	592,255	176,334	6,088,245	7,251,468
Gross claims paid	-	55,594	13,057	316,489	76,682	56,619	1,090,370	1,125,783	2,502,479	118,124	108,649	302,494	611,183	6,377,523	5,974,600
Change in gross outstanding claims	4,357	(55,754)	(1,280)	(221,516)	115,789	(24,859)	216,932	129,199	(30,868)	45,171	(30,982)	(162,714)	184,379	(167,856)	917,342
Less: Reinsurance recoverable	4,112	(58,117)	(895)	(378,661)	(7,722)	(21,749)	(108,560)	(103,430)	(976,083)	27,422	157	(11,108)	(477,723)	(2,112,357)	(1,647,820)
Net incurred claims	(245)	53,230	13,442	159,344	(46,829)	59,729	764,878	893,154	1,557,264	100,375	139,788	454,100	(50,919)	4,097,310	5,244,122
Commissions receivable	(2,305)	(36,736)	(5,168)	(143,842)	(8,617)	(24,521)	-	(265)	(305,134)	(10,271)	(1476)	(2,904)	(30,425)	(571,664)	(436,097)
Commissions payable	1,368	33,898	15,717	132,939	15,264	36,802	129,553	149,758	308,041	38,649	19,022	121,870	27,695	1,030,576	1,074,123
Expenses of management	647	35,360	14,765	143,668	30,747	44,293	266,956	286,893	399,722	38,936	37,998	116,559	49,349	1,465,892	1,496,675
Total expenses and commissions	(290)	32,522	25,314	132,765	37,394	56,574	396,509	436,386	402,629	67,314	55,544	235,525	46,619	1,924,803	2,134,701
Underwriting profit / (loss)	**445**	**(26,968)**	**14,778**	**(158,965)**	**62,889**	**(5,455)**	**84,009**	**73,939**	**17,693**	**(46,069)**	**(33,427)**	**(97,370)**	**180,634**	**66,131**	**(127,355)**

Key ratios	%	%
Loss ratio (net claims incurred/net earned premium)	67.30	72.32
Commissions ratio (commissions payable/gross written premium)	12.41	11.94
Expense ratio (management expenses/gross written premium)	17.65	16.63

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